

**ADDRESS BY AUDITOR-GENERAL, EDWARD OUKO, TO PARLIAMENTARY ACCOUNTS COMMITTEE ON THE HIGHLIGHTS OF THE NATIONAL GOVERNMENT AUDIT REPORT, 2013/2014 FINANCIAL YEAR, ON AUGUST 13, 2015**

**Mr. Chairman, Honourable members**

Let me take this opportunity to thank the leadership of Parliament, Parliamentary Accounts Committee and Honourable members for giving me this opportunity to share my Report of the National Government Accounts for 2013/2014 financial year. This opportunity is a clear show of Parliament's resolve and commitment in ensuring accountability and transparency in the management of public resources.

**Mr. Chairman, Honourable members**

Before I get to the gist of the matter, allow me to briefly outline the mandate of my Office.

**Mandate of the Auditor-General**

The Office is mandated under Article 229 (4) of the Constitution to audit and report on:

- The accounts of the national and county governments;
- The accounts of all funds and authorities of the national and county governments;
- The accounts of all courts;
- The accounts of every Commission and Independent office established by the Constitution;
- The accounts of the National Assembly, the Senate and the county assemblies;
- The accounts of political parties funded from public funds;
- The public debt; and
- The accounts of any other entity that legislation requires the Auditor-General to audit.

The Constitution further requires the Auditor-General under Article 229 (6) to confirm whether or not public money has been applied lawfully and in an effective way.

**Mr. Chairman, Honourable members**

In executing the above mandate, the Office anchors itself on three strategic pillars:

**a) Certification of Accounts to assure fiscal Accountability**

This pillar responds to the core mandate of certifying accounts at national and county levels and expressing an opinion as to whether they are prepared in accordance with the applicable financial reporting framework and/or statutory requirements. The end product of this exercise is an annual audit report on each entity that is presented to Parliament and the relevant County Assembly.

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

Continuous audit ensures that the Office is proactive, preventive and deterrent to fraud & corruption, wastage and abuse of public resources. This requires the auditor to constantly be on the ground to continuously assess the risks brought about by the evolving environment so as to perform “real time” transactions testing and data analysis that enable timely recommendations.

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

In this pillar we respond to the economy, efficiency and effectiveness with which the resources are utilised to deliver services to the public.

**Mr. Chairman, Honourable members**

Now allow me to go into the scope of the audit of the national government for the 2013/2014 financial year.

**Scope and Performance of the Audit**

As required under the Constitution, the scope of the audit of National Government includes Ministries, Government Departments, Agencies, Funds and Development Partners' funded Projects.

The focus of this audit, as any other past audits, was therefore on the mentioned areas. It is therefore important to state that in carrying out this audit, my officers, as is always the norm, adhered to international standards of auditing.

In performing the audit, we:

- (i) Issue letter of understanding to our clients – This letter serves to arrive at a common understanding of what the audit assignment will entail and what the expectations of both the audited entity and the auditors are.
- (ii) Hold entry meeting with the clients' management – This is the inaugural meeting before the audit exercise commences. The contents of letter of understanding are discussed during this meeting
- (iii) Issue audit queries to audited entity – These are issued to inform management of any significant matters found during the audit.
- (iv) Hold exit meetings – We invite management of the auditee to attend these meetings where my auditors share the findings of the audit exercise.
- (v) Issue Management letter – This we issue to the Accounting Officer of the auditee and includes all unresolved audit findings and exceptions that are likely to be included in the audit report if not satisfactorily clarified.

Depending on the response of the Management to this letter, we either retain, drop or keep the matter(s) in view.

- (vi) Issue draft audit Report – This we send to the Accounting Officer to inform the Audited Entity of all outstanding significant issues found during the audit and included in the Management Letter.

Depending on the response of the Management to this draft report, we either retain, drop or keep the matter(s) in view.

- (vii) Issue a Final Audit Report - We issue this to provide an overall Opinion on the financial statements and other aspects pertaining the accountability of the auditee.
- (viii) Consolidated Report for National Government – We consolidate all the issued audit reports for different Ministries/Departments/Agencies.

## **Overview of 2013/14 National Government Audit Report**

### **Mr. Chairman, Honourable members**

Let me now go to the overview of the National Government Report. I signed the Consolidated Report for all National Government Ministries, Departments and Agencies (MDAs) on June 29, 2015. The report was submitted to the Speaker, Cabinet Secretary National Treasury and Director General in charge of Accounting Services on July 6, 2015 and to the Clerk of the National Assembly on 10 July 2015. The individual MDAs' Reports were issued to the respective accounting officers by end of May 2015.

My Office is aware of the increased demand for accountability information in Kenya by various stakeholders. The media has particularly been active in picking issues raised after the Final Reports have been issued. It is observed that during analysis of the audit reports, some of the stakeholders may distort the contents of my Report. My Office is therefore, working on a strategy to alleviate any such distortion.

### **Mr. Chairman, Honourable members**

Government spending has been on the rise, depicting an expanding need for more resources. In 2013/2014 government spending stood at **Kshs.1.46 trillion** compared to **Kshs.1.12 trillion** the previous year.

In the financial year under review, my Office audited 101 Financial Statements (FS). These FS were prepared using the International Public Sector Accounting Standards (IPSAS) framework as prescribed by the Public Sector Accounting Standards Board of Kenya, in compliance with Section 83 of the Public Finance Management Act, 2012.

The audit of the 2013/2014 national government financial accounts, indicates an increase of unqualified opinion (clean statements), as compared to other years. This indicates that Government Ministries, Departments and Agencies have put measures to increase accountability of public resources. In 2013/2014 financial year I established that 26 per cent of the financial statements had a clean report compared to 12 per cent in 2012/2013 and six per cent in 2011/2012.

<b>Audit Opinion</b>	<b>Financial Year</b>					
	<b>2013/2014</b>		<b>2012/2013</b>		<b>2011/2012</b>	
	No. of FS	%	No. of FS	%	No. of FS	%
<b>Unqualified</b>	26	26%	41	12%	15	6%
<b>Qualified</b>	50	50%	172	50%	130	51%
<b>Adverse</b>	16	16%	45	13%	24	10%
<b>Disclaimer</b>	9	9%	85	25%	83	33%
<b>Total</b>	<b>101</b>	<b>100%</b>	<b>343</b>	<b>100%</b>	<b>252</b>	<b>100%</b>

**Mr. Chairman, Honourable members**

Allow me to explain what various audit opinions mean:

<b>Opinion</b>	<b>Reasons for the Opinion</b>
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<b>Unqualified</b>	The FS give a true and fair view or are presented fairly, in all material respects, in accordance with the Government Financial Regulations and Procedures and Public Finance Management Act, 2012 and public funds have been applied lawfully and in an effective manner
<b>Qualified</b>	Misstatement or limitation on my audit is not as material and pervasive as to require an adverse or a disclaimer of opinion. I have thus expressed an 'except for' opinion based on the effects of the matter(s) to which the qualification relates.
<b>Adverse</b>	Audit matters on the financial statements are so material and pervasive that I have concluded the financial statements are misleading or incomplete
<b>Disclaimer</b>	I was not able to express an opinion where the possible effects of limitations on my audit were so material and pervasive that I was unable to obtain sufficient appropriate audit evidence and accordingly unable to express any meaningful audit opinion on the financial statements

During the audit, there are reasons that accompanied my professional opinion on the Financial Statements:

**Reasons for Qualification**

- Unsupported expenditure
- Non surrender of imprests

- Unauthorized expenditure
- Long outstanding reconciling items in bank reconciliation statements
- Excess expenditure
- Misallocation of expenditure items
- Lack of adequate disclosures

### **Reasons for Disclaimer**

- Discrepancies between the financial statements and the respective ledgers and the trial balance
- Differences between 2012/2013 closing audited balances and opening balances for 2013/2014
- Unsupported balances in the financial statements
- Failure to prepare financial statements in accordance to International Public Sector Accounting Standards and Treasury instructions

### **Other Notable findings**

- (i) **Unsupported Expenditure-** During the year under review various MDAs presented statements for audit with Kshs. 66.7 billion balances/expenditure not properly supported, which I queried.
- (ii) **Pending bills** – The total unsettled bills, at the close of the financial year 2013/2014 amounted to Kshs 16.6 billion. I noted that failure to settle these bills during the year in which they occur, distorts the preceding year's budget
- (iii) **Excess vote** – MDAs incurred excess vote to the tune of Kshs.24.5 billion.

**Mr. Chairman, Honourable members**

### **Audit findings per MDA**

Let me now go into the specific audit findings per MDA

### **Vote 107 -The National Treasury**

Overall the National Treasury had a qualified Opinion. The main reasons for qualification included:

- (i) Under-Expenditure of Kshs. 5 billion
- (ii) Pending Bills of Kshs 332 Million
- (iii) Poor accounting for revenue

In addition I emphasized the matter on how the sovereign bond amounting to USD.1,999,052,872.97 ( about Ksh.200 bn) was deposited in an offshore account

I also expressed separate opinions for other Financial Statements and Fund accounts prepared by National Treasury, as detailed in my report.

### **Vote 101 -The Presidency**

During the year under review there were no material issues noted during the audit of the financial statements for the Presidency hence I expressed unqualified (clean) Audit Opinion.

### **Vote 102 -Ministry of Interior and Coordination of National Government**

I expressed an adverse opinion on the FS for this ministry. The main reasons for adverse opinion being:

- (i) The Ministry incurred expenditure totalling Kshs.1.2 billion in respect of compensation on Legal dues, Arbitration and Compensation Payments for various court awards. The case resonated around an illegal sale of land which the ministry entered into with defunct Kenya Posts and Telecommunication Company.
- (ii) Advance payment for security items (as detailed in my report)

- (iii) Under collection of revenue amounting to Ksh. 4 Million
- (iv) Accuracy of Financial Statements

### **Vote 103 -Ministry of Devolution and Planning**

I expressed a qualified opinion on the FS for this ministry. The main Reasons being:

- (i) Lack of trial balance – The FS were not supported by a trial balance
- (ii) The ministry transferred Kshs.1,964,426,798 to other Government Units which had not been budgeted for.
- (iii) Poor maintenance of Cashbook
- (iv) Pending bills amounting to Kshs. 1.1 billion

### **Vote 104 -Ministry of Defence**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Mismanagement of Imprests amounting to Kshs. 74 Million
- (ii) Poor workmanship in the Completion of Married Officers Quarters at 9KR Eldoret
- (iii) Inappropriate Presentation and Disclosure of the Statement of Receipts and Payments
- (iv) Purchase of 32 faulty Armoured Personnel Carriers (APCs)
- (v) Advance Contract payment for 75 APCs
- (vi) Excess Appropriations in Aid

### **Vote 105 -Ministry of Foreign Affairs and International Trade**

I expressed a qualified opinion on the FS for this ministry. The main Reasons being:

- (i) Unsupported Expenditure amounting Ksh. 23 Million by various missions

- (ii) Unauthorized expenditure amounting to Ksh. 180 Million in various missions abroad
- (iii) Overpayment for purchase of Tokyo Embassy residence
- (iv) Purchase of Condemned Residential Houses at Pretoria

#### **Vote 106 -Ministry of Education, Science and Technology**

I expressed an adverse opinion on the FS for this ministry. The main reasons being:

- (i) Inaccurate Financial Statements
- (ii) Various unsupported payments and balances amounting to Kshs. 12.8 Billion.

#### **Vote 108 -Ministry of Health**

I expressed an adverse opinion on the FS for this ministry. The main reasons being:

- (i) Expenditure of Kshs. 24 Billion incurred without parliamentary approval.
- (ii) Unsupported Expenditure and balances under several items amounting to Kshs.22.5 Billion.
- (iii) Other issues included pending bills, misallocation of expenditure among others.

#### **Vote 109 -Ministry of Transport and Infrastructure**

I expressed an adverse opinion on the FS for this ministry. The main reasons being:

- (i) Inaccurate Financial Statements
- (ii) Unsupported expenditure and balances amounting to Kshs.22 Billion.
- (iii) Discrepancies in balances of various statements which ordinarily should have the same balance
- (iv) Failure to perform Bank reconciliations

#### **Vote 110 - Ministry of Environment, Water and Natural Resources**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Pending bills amounting to Kshs.471 Million not cleared during the year
- (ii) Bank Reconciliations not done on various cashbooks
- (iii) Outstanding imprests amounting to Kshs. 38 Million

#### **Vote 111 - Ministry of Land, Housing and Urban Development**

I expressed an Adverse opinion on the FS for this ministry. The main reasons being:

- (i) Unsupported receipts amounting to Kshs. 757 Million
- (ii) Misallocation of Expenditure amounting to Kshs.127 Million
- (iii) Failure to provide footnotes for material differences
- (iv) Pending Bills of Kshs.392 Million
- (v) Difference between statement of receipts and payments and the supporting schedules amounting to Kshs. 677 million.

#### **Vote 112 - Ministry of Information, Communications and Technology**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Double payment for goods and services amounting to Kshs.84 Million
- (ii) Long outstanding General Account on Vote balance of Kshs. 722 Million

#### **Vote 113 - Ministry of Sports, Culture and Arts**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Pending Bills of Kshs. 143 Million
- (ii) Uncleared prior year Balances of Kshs. 16Million

#### **Vote 114 - Ministry of Labour Social Security and Services**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Under-Collection of Revenue amounting to Kshs.368 Million
- (ii) Unsupported grants of Kshs.22 Million
- (iii) Inaccurate opening Balances in the Financial Statements
- (iv) Non – Compliance with International Public Sector Accounting Standards
- (v) Outstanding imprests amounting to Ksh. 7.5 Million

#### **Vote 115 - Ministry of Energy and Petroleum**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Transfer of money amounting to Kshs 2.7 billion to KPLC which could not be traced in KPLC books
- (ii) Unsupported Balances of Kshs. 1.3 Billion

#### **Vote 116 - Ministry of Agriculture, Livestock and Fisheries**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Delay in completion of Bio-Diversity Lab at Kabete Nairobi (Kshs. 245 Million)
- (ii) Pending Bills of Kshs. 2 billion
- (iii) Unremitted Deposits to National Treasury of Kshs. 266 Million.
- (iv) Inaccuracy of some Financial Statements

#### **Vote 117 -Ministry of Industrialization and Enterprise Development**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Amount reflected in the ministry's statements as loaned to Kenya Industrial Estates differs with the agency's records by Kshs. 100 Million
- (ii) Loss of cash amounting to Ksh.6.4 Million

- (iii) Late submission of the Management, Supervision and Liquidation Fund financial statements

### **Vote 118 -Ministry Of East African Affairs, Commerce and Tourism**

I expressed a qualified opinion on the FS for this ministry. The main reasons being:

- (i) Unconfirmed Opening Balances
- (ii) Unsupported Expenditure amounting to Kshs.59 Million
- (iii) Undisclosed bad and doubtful Debts

### **Vote 119 -Ministry of Mining**

During the Year under review there were no material issues noted during the audit of the financial statements for the Ministry of Mining, hence I expressed unqualified (clean) Audit Opinion.

### **Vote 120 - Office of the Attorney-General and Department of Justice**

I expressed an Adverse Opinion on the FS for this Department. The main reasons being:

- (i) Accuracy and completeness of the Accounts was in doubt
- (ii) Unreconciled Bank Balances
- (iii) Unsupported Expenditure amounting to Ksh.133 Million
- (iv) Un-Reconciling pending bills between the ledger balance and the FS
- (v) Official Receiver – Unsupported balances 2.45 Billion
- (vi) TJRC – Unsupported expenditure Kshs. 113 Millions

### **Vote 121 –The Judiciary**

I expressed a Qualified Opinion on the FS for the Judiciary. The main reasons being:

- (i) Costly lease of equipment at the cost of Kshs.153M instead of buying the same
- (ii) Stalled projects
- (iii) Unsupported payments of Ksh.159 Million
- (iv) Pending Bills of Ksh. 45 Million

#### **Vote 122 –Ethics and Anti - Corruption Commission**

During the Year under review there were no material issues noted during the audit of the financial statements for this Commission hence I expressed unqualified (clean) Audit Opinion.

#### **Vote 123 –National Intelligence Service (NIS)**

I expressed a Qualified Opinion on the FS for NIS. The main reasons being:

- (i) Outstanding Imprests of Kshs. 1 Million
- (ii) Advance to Ministry of Foreign Affairs amounting to Kshs. 89 Million.

#### **Vote 124 –Directorate of Public Prosecutions**

I expressed a Qualified Opinion on the FS for DPP. The main reason being:

- (i) Failure to surcharge an officer for full amount of an accident involving a GK vehicle where the officer was on the wrong – Kshs.578,733

#### **Vote 125 –Commission for the Implementation of the Constitution**

I expressed a Qualified Opinion on the FS for CIC. The main reasons being:

- (i) Outstanding Imprests and Advances amounting to Kshs.32.9 Million
- (ii) Fraudulent procurement of goods and services worth Kshs.9.2 Million

### **Vote 126 –Registrar of Political Parties**

During the Year under review there were no material issues noted during the audit of the financial statements for the Registrar of Political Parties hence I expressed unqualified (clean) Audit Opinion.

### **Vote 127 –Witness Protection Agency**

I expressed a Qualified Opinion on the FS for Registrar of Political Parties. The main reason for qualification being:

- (i) Propriety of Expenditure of KShs. 79 Million on Witness Protection fees could not be ascertained.

### **Vote 201 –Kenya National Commission on Human Rights**

I expressed a Qualified Opinion on the FS for KNCHR. The main basis for qualification being:

- (i) Over Expenditure of KShs. 8.8 Million
- (ii) Other issues included Long outstanding imprest and Bank Reconciliation

### **Vote 202 –National Land Commission**

During the Year under review there were no material issues noted during the audit of the financial statements for the National Land Commission hence I expressed unqualified (clean) Audit Opinion.

### **Vote 203 – Independent Electoral and Boundaries Commission**

I expressed a Qualified Opinion on the FS for IEBC. The basis for qualification being:

- (i) Pending Bills of KShs. 1.46 Billion
- (ii) Unresolved previous year's Audit matters

### **Vote 204 – Parliamentary Service Commission**

I expressed a Qualified Opinion on the FS for Parliamentary Service Commission. The main reasons for qualification being:

- (i) Retention Money of Kshs. 78 Million not refunded
- (ii) Delay in project completion and variation of contract sum regarding the remodelling of Senate Chamber and Offices for Parliament

#### **Vote 205 – Judicial Service Commission**

I expressed a Qualified Opinion on the FS for Judicial Service Commission. The main reasons for qualification being:

- (i) Irregular payment of Allowances amounting to Kshs. 2.2 Million
- (ii) Unaccounted for Imprest amounting to Kshs. 2.8 Million

#### **Vote 206 – Commission on Revenue Allocation**

During the Year under review there were no material issues noted during the audit of the financial statements for CRA hence I expressed unqualified (clean) Audit Opinion.

#### **Vote 207 – Public Service Commission**

During the Year under review there were no material issues noted during the audit of the financial statements for the PSC hence I expressed unqualified (clean) Audit Opinion.

#### **Vote 208 – Salaries and Remuneration Commission**

During the Year under review there were no material issues noted during the audit of the financial statements for the SRC hence I expressed unqualified (clean) Audit Opinion.

#### **Vote 209 – Teachers Service Commission**

I expressed a Qualified Opinion on the FS for Teachers Service Commission. The main reasons for qualification being:

- (i) Limitation in confirming whether the property, plant and equipment balance of Kshs.1, 575,585,862.00 is fairly stated
- (ii) Stores and Cash Losses amounting to Kshs. 10 Million

### **Vote 210 – National Police Service Commission**

I expressed a Qualified Opinion on the FS for National Police Service Commission. The main reasons for qualification being:

- (i) Missing motor vehicle logbooks for vehicles worth Kshs. 102 Million
- (ii) Unsupported Rent Payment amounting to Kshs.59 Million
- (iii) Incomplete partitioning and refurbishment of office space at the cost of Kshs. 48 Million

### **Vote 212 – Office of the Controller of Budget**

During the Year under review there were no material issues noted during the audit of the financial statements for the COB hence I expressed unqualified (clean) Audit Opinion.

### **Vote 213 – Commission on Administrative Justice**

During the Year under review there were no material issues noted during the audit of the financial statements for the CAJ hence I expressed unqualified (clean) Audit Opinion.

### **Vote 214 – National Gender and Equality Commission**

During the Year under review there were no material issues noted during the audit of the financial statements for the National Gender and Equality Commission hence I expressed unqualified (clean) Audit Opinion.

## **Vote 215 – Independent Policing Oversight Authority**

During the Year under review there were no material issues noted during the audit of the financial statements for the IPOA hence I expressed unqualified (clean) Audit Opinion.

### **Mr. Chairman, Honourable members**

I want to assure this House that my Office will continue to give the necessary support to Parliament to enable it play its oversight role effectively. My Office will continue to diligently and professionally execute its constitutional mandate. In my Office is a team of professionals, who are dedicated to producing high quality audit reports.

Apart from the national audit report, I have also concluded 90 per cent of the county governments operational reports. My office is also working towards completion of other pending audits, despite the many challenges my office faces.

### **Challenges**

In undertaking this noble function, my Office encounters a number of challenges. Audited entities at times, keep on revising their financial statements long after the statutory deadline has elapsed. This practice negatively impacts on my statutory deadline of auditing the Financial Statements.

My Office continues to be adversely affected by inadequate financial and human resources even with the extended mandate under the current constitution.

To address this challenge, the Office of the Auditor-General continues to engage with Parliament and National Treasury to ensure that adequate funds are provided towards this noble goal. We appreciate the support we have received from these two Government organs and plead with them to hasten the process of strengthening and funding my office for purposes of enhancing accountability in the Country.

In the current financial year my Office was allocated Ksh.3.73 billion against a budgetary requirement of Ksh5.98 billion. The shortfall in the allocation is impacting negatively on the execution of my mandate

### **Way Forward**

#### **Mr. Chairman, Honourable members**

In order to ensure prudent financial management Accounting Officers need to adhere to deadlines for submission of Accounts and ensure that accounts submitted to my office are complete and accurate. I also beseech this August House to appropriate adequate resources to my Office to enable timely submission of audit reports. Additionally, I humbly request honourable members to strengthen my Office, through the Public Audit Bill, 2015, which is before the House. I urge members to critically look at the aspects of the financial, operational and functional independence of my Office.

Lastly, it is the wish of my Office that Accounting Officers adhere to guidelines for accountability and provide the required documentation for audit review by my staff during the audit process.

**Thank you**

**God bless Kenya**