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Majority Whip on 20/7/2016 (pm)



**GOVERNMENT OF KENYA THROUGH THE PARLIAMENTARY SERVICE COMMISSION**

**MANAGEMENT SERVICE REPORT ON THE AUDIT OF THE  
OFFICE OF THE AUDITOR GENERAL (KENYA NATIONAL AUDIT OFFICE) - KENAO**

**8 JULY 2016**



**FINANCIAL AUDIT OF  
THE OFFICE OF THE AUDITOR GENERAL (KENYA NATIONAL AUDIT OFFICE-KENAO)  
FOR THE PERIOD FROM 1 JULY 2013 TO 30 JUNE 2014**

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## **EXECUTIVE SUMMARY**

### **Background of the Office of the Auditor General and The Kenya National Audit Office**

The Office of Auditor General (OAG) in Kenya is an independent constitutional office and is the Country's Supreme Audit Institution (SAI). The OAG is a constitutional office established under the Laws of Kenya and it draws its mandate from the Constitution of Kenya, 2010. The Office is established under Chapter 12, Part 6, and Article 229 of the Constitution of Kenya and is one of the independent offices as established by the Constitution. The OAG is headed by the Auditor-General (AG) who is appointed by the President after approval by the National Assembly. It is not subject to direction or control by any person or authority.

The Auditor General (AG) and the Office of the Auditor General (OAG) is enshrined in the Constitution of Kenya 2010 and the Public Audit Act 2003. Article 229 (4), of the Constitution of Kenya 2010 outlines the mandate of the Office of the Auditor General (OAG). It stipulates that the Auditor General (AG) shall audit and report, in respect of that financial year, on the accounts of:-

- The National and County governments;
- All funds and authorities of the National and County governments;
- All courts;
- Every commission and independent office established by the Constitution;
- The National Assembly, the Senate and the county assemblies;
- Political parties funded from public funds;
- The public debt; and
- Any other entity that legislation requires the Auditor-General to audit.

The core mandate is to carry out audits and report to Parliament and the relevant County Assemblies within statutory timelines. It includes carrying out performance audits in addition to audit of accounts referred to above under Article 229 (4) of the Constitution of Kenya 2010.

The Auditor General is required to audit and report on all the accounts of any entity that is funded from public funds.

## **Objectives and scope of the audit**

### **Objectives**

The objective of the assignment is to carry out the annual audit of Office of Auditor General (OAG) for the years ended 30 June 2014 and to:

- i. Ensure that the audits are in accordance with the International Standards on Auditing (ISA).
- ii. Check whether the financial statements have been prepared in accordance with the Government Financial Regulations and Procedures.
- iii. Express a professional opinion on the Auditor General's Office on matters relating to the financial position at the end of each financial year and on funds received and expenditures incurred for the relevant accounting period.
- iv. Prepare an audit report in line with pertinent constitutional provisions by Parliament.
- v. To carry out the audit in accordance with The International Standards on Auditing (ISA) and as per the provisions of The International Federation of Accountants (IFAC).
- vi. Undertake internal controls testing to ensure that all funds received are used as per its purpose.
- vii. Conduct thorough internal controls systems (ICS) testing to ensure that controls are existing and are used effectively.
- viii. Conduct tests to ensure that books of account are kept as per The Government of Kenya (GoK) Financial Regulations and are consistent with the statements of assets and liabilities and the Appropriations In Aid (AIA) accounts.
- ix. Conduct an exhaustive review of the internal control system to have sufficient knowledge procedures underpinning the systems, as contained in the various manuals of procedures or Government Guidelines and agreements signed by GoK.
- x. Report the audit findings in a management letter.

## **Scope**

The scope of the audit assignment was to ensure that;

- i. All necessary supporting documents, records and accounts have been kept in respect of all project activities with clear linkages between the books of account and reports to ensure that KENAO has maintained adequate supporting documentation to support claims for reimbursement of expenditures incurred.
- ii. Goods and works services financed have been procured in accordance with the financing agreements including specific provisions of Government of Kenya Procurement Policies and Procedures
- iii. All necessary supporting documents, records and accounts have been maintained in respect of all activities, including expenditures reported using financial statements and to verify that respective reports issued during the period were in agreement with the underlying books of account.
- iv. National laws and regulations have been complied with and that the financial and accounting procedures (Government Financial Regulations and procedures) were followed.
- v. Financial performance of the Office of The Auditor General is satisfactory.
- vi. Assets procured from funds disbursed to the Office exist and there is verifiable ownership by the Office of the Auditor General or beneficiaries in line with financing agreements.
- vii. The OAG procedures are sound and adequate and consistent with the normal course of operations.

The OAG prepared its financial statements (income statement comprising the funds received from the Exchequer releases, Appropriations In Aid and other sources and expenses incurred) for the year ended 30 June 2014 using the GoK approved IFMIS accounting software on the International Public Sector Accounting Standards (IPSAS) cash basis as recommended by The National Treasury. The OAG prepared its financial statements for the year ended 30 June 2013 under the IPSAS accrual cash basis. The financial statements for the year ended 30 June 2014 have been prepared on the IPSAS cash basis as directed by The National Treasury through their letter reference number AG 4 /16 / 1 Vol.II / (178) dated 21 September 2015.

**This report relates to the audit of the period from 1 July 2013 to 30 June 2014 for the Kenya National Audit Office.**



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## INDEPENDENT AUDITOR'S REPORT

Parliamentary Service Commission (PSC)  
P. O. Box 41842 - 00100  
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### Report on the statements of assets and liabilities and the Appropriations In Aid Accounts

We have audited the accompanying financial statements which comprised a Statement of Financial position, statement of comprehensive income, statement of cash flows and notes to the financial statements of the OAG in accordance with the terms of reference and the requirements of Article 226 (4) of the Constitution of Kenya 2010 for the period from 1 July 2013 to 30 June 2014. The Statement of Financial position and the statement of comprehensive income comprised transactions captured into the OAG IFMIS accounting software on cash basis in which expenses are recognized when paid rather than when incurred. Income was accounted for when received rather than when earned.

### Respective responsibility of the OAG and the auditors

The statement of financial position and the statement of comprehensive income are the responsibility of the OAG. The OAG is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and the requirements of the Constitution of Kenya 2010. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an independent opinion on the financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing (ISA's). These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal controls relevant to the OAG preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the OAG as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion. We have highlighted our audit Findings and Recommendations in the management letter issued separately.

### Emphasis of matter

Our audit involved a review of transactions for the OAG for the period from 1 July 2013 to 30 June 2014 with the findings detailed in the management letter.

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Receivables in the statement of financial position include Kshs. 176,557,917 relating to amounts due from the old town councils which are over one year past due against which no provision for impairment has been made. We circularised 40 number accounts receivables out of which 5 number State Corporations replied. The total ledger account balances in the OAG records for the 5 number State Corporations was Kshs. 43,439,804 while the total of the confirmation balances was Kshs.30,737,650 i.e. a difference of Kshs. 12,702,154. The misstatement of the receivables account balances present doubt on the correctness of the OAG financial statements as at 30 June 2014.

### **Opinion**

In our opinion, except for the possible effect of the matters described in the emphasis of matter paragraph, the financial statements give a true and fair view of the state of the financial affairs of the OAG as at 30 June 2014 and of its surplus and cash flows for the period then-ended in accordance with the International Public Sector Accounting Standards and comply with the requirements of the Kenyan Public Audit Act 2003, Public Financial Management Act and The Constitution of Kenya 2010. This report is solely, intended for the information and use by The Office of The Auditor General (Kenya National Audit Office) and Parliamentary Service Commission



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Date: .....17/11/2014.....

## **1. Summary of Findings**

In accordance with our terms of reference, we present our audit findings as summarised below. Details of these audit findings are contained in section 4 of this report. These types of audit findings and recommendations are further ranked using grade levels as set out below:

### **Grade 1**

There is a fundamental weakness or deficiency in the internal control, which is of a high level that such a finding may impact seriously on the achievement of overall Project goals and financial eligibility of costs incurred.

### **Grade 2**

There is a weakness or deficiency in the internal control, which, although not fundamental, relates to shortcomings, which expose individual areas of the Internal Control System to a less immediate level of risk. May impact on the effectiveness of the Internal Control System and on its operational objectives and should be of concern to the Entity's management. They are more of recommendations for better financial control.

### **Grade 3**

Less significant than Grade 1 and 2 but nevertheless merit attention towards achieving improved financial control. The weakness or deficiency in control individually has no major impact but the Project would benefit from improved controls and/or the Entity would have the opportunity to achieve greater effectiveness and/or efficiency.

Finding n°.	Title	Ranking	Entity comments
1	Unplanned changeovers in the OAG financial reporting framework	2	This was as advised by IPSAS Board
2	Shortcomings of the IFMIS financial management and accounting software	1	These are being addressed through requests for improvements made to the IFMIS Directorate
3	Investment in the audit vault.	1	The Audit vault was procured within the procurement law and the Oracle business terms and conditions.
4	Delays noted in the IFMIS effectiveness audit contract	1	The delay was due to involvement of many stakeholders. The Exit meeting has now been held and the report is expected to be released soon.
5	Procurement transactions with companies not in the OAG prequalified list of suppliers	2	OAG only procures from prequalified suppliers except for special categories already prequalified by National Treasury or Government institutions e.g Kenya School of monetary Studies or where an open tender to the public is floated.
6	Procurement contracts initiated when there were no funds to pay the suppliers	2	Budget was available but delays in Exchequer issue resulted into non – payment before the 30 <sup>th</sup> June 2014. However the Treasury subsequently issued exchequer on 4 <sup>th</sup> July 2014 which was accounted in their 2013/14 exchequer issues.
7	Differences noted between the balances as per the schedules and as per the financial statements	2	The small differences occurred as a result of corrections on the financial statements to tie them to the ledger. The schedules were subsequently amended to match the FS.
8	Inadequacies noted in the fixed assets register	2	Valuation of motor vehicles has already been completed. Valuation of furniture and equipment is expected to be done in 2015/16.
9	Weaknesses noted in the OAG internal control system and corporate governance	2	Weaknesses being addressed and improvement noted.
10	Under / over valuation of inventories / stores	2	The stores procedures being strengthened
11	Other inadequacies in inventories / stores	2	The stores procedures being strengthened
12	Non-compliance with Government regulations and procedures relating	1	All outstanding imprest are being recovered.

	to temporary imprest		
13	Inadequate accounting for accounts receivables / AIA income	1	Reconciliations have been carried out with clients during the Jan and Feb 2016 client visits and disputes are being addressed.
14	Transactions posted to the incorrect budget lines	1	These are exceptional cases but overall the organization is operating within its budget with 82% budget utilization.
15	Overstatement of staff medical insurance costs	1	These are exceptional cases which have been approved by AG as Ex-gratia payment for staff who underwent major medical procedures.  The Office in Feb 2016 implemented the Biometric medical control system which links the hospitals to the medical database and ensures that staff does not go beyond their allocation.
16	Inadequacies in personnel management	2	The Integration between the payroll and IFMIS will continue to be pursued through the National Treasury.  The two identified anomalies in the employee's files were exceptional omissions which have already been rectified.
17	Inadequacies in the procurement budget / procurement plan	2	The Procurement plan is being revised on a regular basis to reflect the changes in the cost of items and also changes in the organizational requirements.

## **2. The OAG accounting, internal controls and financial reporting arrangements**

### **Accounting**

The OAG uses The Government Accounting arrangement run under the IFMIS system in which the receipts and expenditure activities of the OAG are maintained. The OAG prepared its financial statements for the year ended 30 June 2014 on the IPSAS cash basis. This was in line with The National Treasury (TNT) circular reference number AG 4/16/1 Vol. II / (178) dated 21 September 2015 requiring the OAG and all Government of Kenya (GoK) entities and departments to adopt the IPSAS cash basis of accounting to enable comparison and consolidation of the financial statements of these entities funded by the Exchequer.

Despite the change in the accounting policy, the following key accounts / controls are still maintained in the OAG records / financial statements;

(i). The Recurrent Exchequer.

This Recurrent Exchequer represents the budgeted amounts receipts net of supplementary budgets; the amounts received through the Exchequer issues and budgeted Appropriations In Aid. The net amount represents the amounts due from the Treasury to the OAG hence shown as an asset in the Statement of Assets and Liabilities.

(ii). The General Account of Vote (GAV).

The General Account of Vote (GAV) represents surplus of gross approved expenditure estimates and actual gross expenditure. The approved expenditure estimates are usually less than the actual expenditure. Surpluses or deficiencies in Appropriations In Aid accounts are also either added or deducted from the GAV account.

(iii). Remittance to the Exchequer

This account represents the Appropriations In Aid received and the Applied (utilised) Appropriations In Aid. The balance is payable separately to the Exchequer.

The difference between the Recurrent Exchequer and The General Account of Vote is payable to the Exchequer if the General Account of Vote balance is greater than the Recurrent Exchequer and claimable from the Exchequer if the Recurrent Exchequer is greater than the General Account of Vote.

### **Internal Control Systems (ICS)**

The OAG has a budgetary system in which the budgeting process begins from the individual staff (requisitions) which are then combined to form a department budget. The various department budgets are then combined to form the organisational budget in this purely bottom-up budgetary process. We noted that all payments for expenses or procurement of goods and services were only done after the necessary approvals were obtained as per the OAG organogram which embraced proper segregation controls. Moreover, general compliance with policies, laws, regulations and procedures were noted and the OAG staff had clearly defined duties and responsibilities in their letters of appointment.

### **Financial reporting**

We noted improvement in the OAG accounting / preparation of IFMIS cash book and the monthly bank reconciliation statements for the period 1 July 2013 to 30 June 2014. This was facilitated when The National Treasury (TNT) recalled all the Kshs. 143,785,446 held in the OAG old bank account number 1000003607 held at the Central Bank of Kenya (CBK) as at 30 June 2013. The OAG opened and operated a new bank account number 1000181327 with effect from July 2013 with a nil opening balance into which the Exchequer issues, the Appropriations In Aid and other receipts were banked, all the OAG payments for the period 1 July 2013 to 30 June 2014 were made and monthly bank reconciliations prepared.

The organisation maintained a cash book, cash account and general ledger run under the IFMIS software on a cash basis in which the OAG staff has the ability to post transactions but have no ability to amend / change transactions once posted. While this can be credited as a control mechanism in the system, it impaired the OAG staff data processing and reporting abilities. The IFMIS system as operated by the OAG has a fundamental weakness as it still is not synched with the G-pay system that effects payments. This resulted into some transactions being recorded in the IFMIS ledger but not

recorded in the G-pay system as they could not go through the G-pay system due to lack of funds at the bank. This further resulted into an incorrect overdrawn IFMIS cash book balance of Kshs. 24,873,542 as at 30 June 2014.

Receivables in the statement of financial position include Kshs. 176,557,917 relating to amounts due from the old town councils which are over one year past due against which no provision for impairment has been made. We circularised 40 number accounts receivables out of which 5 number State Corporations replied. The total ledger account balances in the OAG records for the 5 number State Corporations was Kshs. 43,439,804 while the total of the confirmation balances was Kshs.30,737,650 i.e. a difference of Kshs. 12,702,154. The misstatement of account balances presents doubt on the correctness of the OAG financial statements as at 30 June 2014.

We commenced our audit field work on 25 August 2015 and concluded on 17 November 2015. We met with the OAG staff on several occasions to resolve audit queries and prepared a draft report on 7 January 2015.

## **Audit Procedures**

### **2.1.1 Obtaining an understanding of the engagement context**

In advance of the audit fieldwork, we reviewed the terms of reference, including annexes. The audit associate partner prepared a 'tailor made' work program to be completed during the site visits and held a briefing meeting with the key audit staff and prepared comprehensive briefing notes to assist all team members.

We prepared an audit fieldwork schedule containing our audit time schedule and worked in close collaboration with finance and administration department, the managers of other key departments such as procurement, human resource, transport, ICT and accounts.

Our overall audit methodology principally comprised of the following steps and procedures:

An opening meeting was held on 25 August 2015 at the premises of the OAG / KENAO in Nairobi, Kenya. The purpose of the opening meeting was to clarify the objectives of the audit, discuss the background of the contracted activities and discuss any initial issues raised by the auditor or contractor relating to the organization and scope of the audit. Our strategy included having bi-weekly meetings with OAG staff to discuss and resolve audit issues.

### **2.1.2 Risk assessment**

We assessed the risks of material errors or misstatements in the expenditure, revenue and the statements of financial position, whether caused by error or fraud. Where necessary, we designed and performed further audit procedures to address risks identified. This work involved an assessment of the risks that:

- the financial statements of the OAG / KENAO are not reliable i.e. that they do not present, in all material respects, the actual expenditure incurred and the revenue received from the Treasury in conformity with applicable laws and regulations;
- the Exchequer issues provided by the Government through the Treasury have not, in all material respects, been used in conformity with applicable laws and regulations;
- fraud and irregularities can occur or have occurred which have an impact on OAG / KENAO expenditure and revenue and which are not detected and corrected in a timely manner; and
- the relevant laws and regulations for the OAG / KENAO are not complied with.

### **2.1.3 Obtaining Evidence regarding Design of Controls and Tests of controls**

We performed procedures to obtain evidence regarding the design of controls and perform tests of controls, insofar as this was considered appropriate for the purpose of this financial and systems audit which is a contractual compliance audit.

### **2.1.4 Substantive procedures**

We performed substantive procedures to be responsive to our assessment of the risks of material errors or misstatements in the expenditure and revenue stated in the statement of receipts and payments, whether caused by error or fraud. Specifically, the work carried out included the following:

- a) Verified a sample of 70% of all the operations in the OAG / KENAO accounts from 1 July 2013 to 30 June 2014 in regards to eligibility and content.
- b) Verified the quality, accuracy, completeness and efficiency of supporting documents and information provided;
- c) Verified whether the commitment to national procedures regarding the bids and the management of public funds were adhered to;
- d) Verified the control system of the revenue management procedures put in place by the OAG, analyzed and assessed possible risks and made suggestions for effective improvement.
- e) Assessed commitment by the OAG to financial management procedures as defined by the Public Financial Management Act and the OAG internal rules, circulars and procedures and gave recommendations for the improvement where necessary.
- f) Assessed the reporting and archiving system giving recommendations for improvement.

### **2.1.5 Analytical procedures**

We performed analytical procedures through a review of actual expenditure incurred compared to the OAG approved estimates. We also used our professional scepticism and reviewed the accounting records for any unusual transactions.

Our audit fieldwork was completed on 13 October 2015 and an initial debriefing meeting with the auditee was held on 4 November 2015.

We held another meeting at the OAG / KENAO offices in Nairobi, Kenya on 10 November 2015. The purpose of the meeting was to brief the OAG / KENAO on the audit findings noted during the audit. We also met separately with the OAG officers to resolve audit findings.

### 3. Findings and Recommendations

The following are comments, observations and recommendations that we observed during our audit for the year 1 July 2013 to 30 June 2014 which are intended to help the management of the OAG strengthen financial management, accounting, and bookkeeping systems and procedures.

#### 3.1 Follow up of the year 1 July 2012 to 30 June 2013 audit issues.

No	Title	Description Of Prior Period Audit Finding	Current Status	Comments From KENAO
1	Weaknesses in the preparation of bank reconciliation statements.	(i). Material differences were noted in the bank reconciliation statements for the period 1 July 2012 to 30 June 2013.  (ii). A casting error of Kshs. 1,294,469 was noted in the bank reconciliation statements for January 2013 and February 2013	Closed  No similar issues were noted during the audit for the period 1 July 2013 to 30 June 2014.	
2	Delays noted in the preparation of bank reconciliation statements	The OAG did not prepare the bank reconciliation statements reconciling the IFMIS cash book balances and the bank statement balances for the period 1 July 2012 to 30 June 2013 on a timely manner. All the bank reconciliations for the period were prepared late in December 2014. The bank reconciliations prepared had differences.	Closed  No similar issues were noted during the audit for the period 1 July 2013 to 30 June 2014.	
3	Procurement transactions with no contracts and supplier quotations	Noted that procurement transactions either lacked the supplier quotations or contacts between the OAG and the supplier or lacked both the contracts and the quotations	Closed  No similar issues noted during the audit for 2013/2014	
4	Discrepancies noted in the purchase of motor vehicles	(i). The OAG purchased 15 number motor vehicles i.e. 5 Toyota Prado models and 10 Ford Everest models. Out of these, only 8 motor vehicles were approved in the procurement plan for the year 1 July 2012 to 30 June 2014.  (ii). The ordering date of 3 May 2013 and receipts date of 6 May 2013 for the 10 Ford Everest vehicles were several months before the approval date of 7 October 2013.  (iii). The vehicles supplied did not match the description of the vehicles ordered.	Closed  No vehicles were purchased by the OAG during the period 1 July 2013 to 30 June 2014	

No	Title	Description Of Prior Period Audit Finding	Current Status	Comments From KENAO
5	Procurement transactions with companies not in the prequalified list of suppliers	The OAG entered into procurement transactions with companies not in the prequalified list of suppliers.	Open.  Similar issues still noted during the audit for the period 1 July 2013 to 30 June 2014.	Controls have been tightened and now only dealing with prequalified bidders, Special groups and government entities.
6	Accounting and payroll software not integrated	Noted that although IFMIS and G-pay are integrated online, the Memory Soft for payroll is still not integrated to IFMIS and G-pay	Open  The Memory Soft is still not integrated to IFMIS and the G-pay.	This is NT issue. OAG is pushing for independence to have own ERP
7	Inadequacies noted in the fixed assets register (FAR)	The fixed assets register does not show the values of the motor vehicles. The OAG also lack asset capitalization policy as some assets included in the register are either of very low values or have useful lives of less than one year.	Open.  The asset registers provided still lack asset values in many cases.	Valuations are ongoing in 2015/2016. Motor vehicle valuations are already complete
8	(Under) / over valuation of inventories	The inventory / stores schedules provided showed (under) / over valuation of inventories resulting from arbitrary allocation of the stores values and not as a product of stores quantities and per unit costs.	Open  The (under) / over valuation of the inventories still noted during the audit for the period 1 July 2013 to 30 June 2014	Stores records have been enhanced for better control
9	Other inadequacies in the inventories	(i). Noted the incorrect inclusion of property, plant and equipment items in the inventory / stores schedule.  (ii). Differences noted between the stores quantities as per the inventory counts and the quantities as per the bin cards. The stores count sheets also contained arithmetic errors.	Closed  No similar findings noted during the 2013/2014 audit	
10	Non-compliance with the Government Regulations and	Noted many cases of non-compliance with the Government Regulations and Procedures in relation to temporary imprest in which the imprest holders did not surrender the imprests within 48	Open  Similar findings still noted during the audit for the period 1 July	All imprests for 2013/14 recovered in Sept 2015. Measures being taken to enhance

No	Title	Description Of Prior Period Audit Finding	Current Status	Comments From KENAO
	Procedures in relation to temporary imprest.	hours after returning to duty station as required by chapter 5(6)(5) of the Government Regulations and Procedures relating to temporary imprest. Also noted that some staff had more than one imprests to surrender by 30 June 2013	2013 to 30 June 2014.	compliance
11	Provision for impairment of receivables not made in the financial statements	No provision for impairment had been made for the long outstanding amounts receivable from the old town councils amounting to Kshs. 157,795,565 of which Kshs. 135,669,565 had been outstanding for more than one year.	Open.  The issue has not been resolved as the long outstanding accounts receivable balances due from the old County council Governments have neither been receiver nor have provisions been made against them.	The matter is being handled by the Transition Authority (TA) for recovery.  No provisions can be made as OAG has adopted cash basis of accounting
12	Transactions posted in the incorrect budget lines	We noted non-compliance with the budgetary provisions in which a number of transactions were posted in the incorrect budget lines	Open  Similar findings still noted during the audit for the period 1 July 2013 to 30 June 2014.	This is being dealt with by carrying out more accurate reallocations during the supplementary budget.
13	Shortcomings of the IFMIS cash book and the IFMIS general ledger	There was inconsistent or lack of the link between the IFMIS cash book and the IFMIS general ledger.	Open  Similar findings still noted during the audit for the period 1 July 2013 to 30 June 2014.	Duplicate vouchers and other weaknesses being addressed through IFMIS Directorate.
14	Inadequately supported expenditure	Noted the inadequately supported expenditure in which payment vouchers lacked receipts, invoices and the payee lists where applicable	Closed.  No similar findings noted during the audit or the period 1 July 2013 to 30 June 2014.	
15	Incorrectly calculated staff PAYE	Noted that the OAG did give tax credit to employees for the insurance policy premiums and mortgage interests paid thereby over stating their tax liabilities.	Closed.  No similar findings noted during the audit or the period 1 July 2013 to 30 June 2014.	

No	Title	Description Of Prior Period Audit Finding	Current Status	Comments From KENAO
16	Delays in submission of statutory deductions	The OAG did not remit the PAYE, NSSF and NHIF for December 2012, February 2013, March 2013 and May 2013	Closed. No similar findings noted during the audit or the period 1 July 2013 to 30 June 2014.	
17	Inadequacies in the staff recruitment process	The OAG lacked the job advertisements, short listing details, identification documents, staff medical records, interview, grading and selection.	Closed. No similar findings noted during the audit or the period 1 July 2013 to 30 June 2014.	
18	Missing staff files	We requested but were not provided with a number of staff files for our audit reviews	Closed All the staff files requested during the audit for the period 1 July 2013 to 30 June 2014 were provided	
19	Non-compliance with expenditure cut off procedures	The OAG did not adhere to the expenditure cut off procedures as some expenditures for the fiscal year 2011 / 2012 were incorrectly posted in the year 2012 / 2013	Closed. No similar finding noted during the audit for the period 1 July 2013 to 30 June 2014	

### 3.2 Current year audit findings

<b>Finding n°: 1</b>	<b>Title: Unplanned changeover in OAG financial reporting framework.</b>
<b>Description of the finding:</b> <p>Noted that the financial statements prepared for audit for the year ended 30 June 2013 were on the IPSAS modified cash basis. The financial statements prepared for audit for the year ended 30 June 2014 were on the basis of the Treasury recommended IPSAS cash basis. The abrupt / unplanned changeovers has left the OAG with accounting challenges with regard to reconciliation of account balances as shown in finding No.1 and the restatement of the financial statements as a result of changes in accounting policies as required by the International Public Sector Accounting Standards (IPSAS) as shown in finding No. 2.</p> <p>We feel that the OAG should have asked the Treasury for a transition period of say two years to organize its books alongside the IFMIS effectiveness review that took place during the year.</p>	
<b>Implications:</b> <p>There is a risk of loss of trail of the previous account balances mentioned without the required restatements.</p>	
<b>Recommendations:</b> <p>We recommend that the OAG requests the Treasury for a transition period in order to clean up and restate its account balances before adopting the IPSAS cash basis financial reporting.</p>	
<b>Recommendation priority:</b> Priority 2	
<b>Comments from the OAG:</b> <p>The changeover was as advised by Treasury for purpose of consistency in government accounting.</p>	

<b>Finding n°: 2</b>	<b>Title: Shortcomings of the IFMIS financial management and accounting software</b>
<b>Description of the finding:</b>	
<p>We positively noted that the OAG managed to reconcile the IFMIS cash book and the Central Bank of Kenya (CBK) account balance as at 30 June 2014. This became possible when The National Treasury recalled a total of Kshs. 143,785,446 from the old CBK account number 1000181327 and a new CBK account number 1000003607 with a nil opening balance and into which was posted the receipts and payments for the period 1 July 2013 to 30 June 2014 was opened.</p> <p>Despite that, the following shortcomings were still noted in the IFMIS cash book;</p> <ol style="list-style-type: none"> <li>i. The IFMIS system duplicated the expenditure payment voucher numbers especially for the daily subsistence allowances (DSAs).</li> <li>ii. The IFMIS system is still not synched with the G-pay system. This resulted into some transactions being recorded in the IFMIS ledger but not recorded in the G-pay system as they could not go through the G-pay system due to lack of funds at the bank. This further resulted into an incorrect overdrawn IFMIS cash book balance of Kshs. 24,873,542 as at 30 June 2014.</li> </ol>	
<b>Implications:</b>	
<ol style="list-style-type: none"> <li>i. The inherent problem of the IFMIS system which causes it to duplicate the payment voucher numbers could result into the system duplicating not only the payment voucher numbers but even the amounts thereby resulting into material misstatements due to error.</li> <li>ii. The processing and posting of payments into the IFMIS system even when the funds were not available at the bank indicate lack of proper accounts monitoring procedures which state that payments processing should not be commenced before confirming that funds are available at the bank.</li> </ol>	
<b>Recommendations:</b>	
<p>We recommend that;</p> <ol style="list-style-type: none"> <li>i. The OAG should liaise with The Treasury in finding out what should be done to correct the duplication of the payment voucher numbers. The long overdue IFMIS effectiveness review report should also provide solutions to the problem.</li> <li>ii. The OAG should ensure IFMIS synchs with the G-pay system and improve on its payment processing procedures in which payment transactions are not processed unless there is enough cash at the bank.</li> </ol>	
<b>Recommendation priority: Priority 1</b>	
<b>Comments from the OAG:</b>	
<p>OAG constantly consults with the IFMIS Directorate in order to ensure continuous improvement of the different functions in IFMIS.</p> <p>The National Treasury requires all payments to have been posted in IFMIS and transferred to the payment module before they can issue Exchequer. Delays in Exchequer payments inevitably results into unpaid payments at the end of the period.</p>	

<b>Finding n°: 3</b>	<b>Title: Investment in the audit vault</b>
<p><b>Description of the finding:</b></p> <p>Noted that for effective external audits, the OAG needed to access their clients' data from IFMIS and audit vault was the only means of accessing the data. This necessitated the procurement of the audit vault and business intelligence tools in which a total of USD 1,520,015 or Kshs. 131,994,460 was payable to the vendor. We understand that the OAG sent 30 relevant staff members for the audit vault training between November 2014 and February 2016. We are meant to believe that the Ethics and Anti-Corruption Commission (EACC) has queried the procurement of the audit vault and business intelligence tools. The audit vault contract had not been completed and finalized by the time we concluded our field audit of the OAG on 30 October 2015 i.e. more than 2 years since the contract was initiated. According to the agreement between the OAG and OSI Kenya Limited, the contract delivery period was 30 days.</p>	
<p><b>Implication:</b></p> <p>The investment has not been fully exploited.</p>	
<p><b>Recommendations:</b></p> <p>We recommend that;</p> <p>The OAG should move to live data as this has adequate security controls. This would make full use of the investment and safeguard the data of the OAG clients. .</p>	
<p><b>Recommendation priority:</b> Priority 1</p>	
<p><b>Comments from the OAG:</b></p> <p><b>Contractual Issues</b></p> <p>The full implementation of Audit Vault was dependent on Going Live (Connecting to the production environment) and this was the main reason for the delay. This was due to:-</p> <ol style="list-style-type: none"> <li>The approval to connect to IFMIS production environment not being issued on time. (It was issued on 12<sup>th</sup> May 2015 by the Principal Secretary Treasury).</li> <li>The connection to IFMIS production environment was further delayed by a request by Treasury to give them time to implement their security systems and middleware solutions.</li> <li>The security and middleware solution were finally implemented towards the end of the year (2015) which allowed us to complete the connection to the production environment in January 2016. We then embarked on the customization of the analysis tools which we expected to complete by end of May 2016 for use by our Auditors.</li> <li>Please take note that the delay to connect to the live environment was occasioned by the delay in getting the relevant approvals from Treasury.</li> <li>The installation of Audit Vault is now complete but there are delays in going live.</li> </ol> <p>Please also take note that we used Audit Vault and Oracle Business Intelligence tools during the IFMIS Effectiveness review and during this period, we were connected to the Clone Environment and extracted various reports that we used in the final report.</p>	
<p><b>Further comments from the auditor</b></p> <p>The complete installation of the Audit Vault (OAG comments (e) above will be a matter to be followed up by the incoming auditor.</p>	

<b>Finding n°: 4</b>	<b>Title: Delays noted in the IFMIS effectiveness audit contract</b>
<p><b>Description of the finding:</b></p> <p>The OAG entered into an IFMIS effectiveness review contract with Jomo Kenyatta University of Agriculture and Technology Enterprises Limited (JKUATES) on 27 February 2014 and made a 50% down payment to JKUATES amounting to Kshs. 49,400,092 via payment voucher number 4015 dated 11 March 2014. We are made to understand that JKUATES engaged various consultants to carry out the review on their behalf.</p> <p>The contract period was for 12 weeks i.e. 3 months from 27 February 2014 but had not been completed by 30 October 2015 when we concluded the OAG filed audit for the period ended 30 June 2014. This amounted to a delay of 1 year and 7 months</p>	
<p><b>Implication:</b></p> <p>The investment in the IFMIS effectiveness audit has not been fully realized in a timely manner</p>	
<p><b>Recommendation:</b></p> <p>We recommend that the OAG ensures that the contractors complete their contracts in time.</p>	
<p><b>Recommendation priority:</b> Priority 1</p>	
<p><b>Comments from the OAG:</b></p> <p><b>Cause of Delays</b></p> <ul style="list-style-type: none"> <li>a) It should be noted that the JKUATES submitted their report in March 2015 and we had to carry out due diligence with the Auditee on the issues that were raised in the report. Due diligence involved consultative meetings between us and treasury which involved validating all the issues raised. We had a series of meetings with treasury whenever they were available but it should be noted that we occasionally had to postpone our meetings due to non-availability of relevant officers to review the report. We finally had our exit meeting in May 2016 with the Principal secretary/ Treasury on the final Report, The availability of IFMIS documentation was the primary cause of the delay. Documents requested for were kept in different locations by different agencies and departments within the Treasury. Please take note that we are still receiving information as late as 2 weeks ago.</li> <li>b) It is important to note that this was a systems review and we are yet to have a final stakeholder's exit meeting. Although the process is complete it has not been possible to get the stakeholders namely other Treasury departments, Controller of Budget, ICT Authority and Internal Audit but Consultations are on-going on the same.</li> <li>c) Furthermore, it should be noted that there are other agencies that had to be consulted first before the report is released to the Public.</li> </ul>	

<b>Finding n° 5:</b>	Procurement transactions with companies not in the prequalified list of suppliers
<p><b>Description of the finding:</b></p> <p>We noted that the OAG entered into procurement transactions with companies not in the OAG pre-qualified list of suppliers as detailed in annex II.</p> <p>Section 32 of the Public Procurement and Disposals Act 2005 provides that procuring entities may use a pre-qualification procedure or may use the results of a pre-qualification procedure used by another public entity in conducting its procurement transactions.</p>	
<p><b>Implication</b></p> <p>There is the risk of loss of value for money in procurement transactions entered into with companies not in the prequalified list of suppliers.</p>	
<p><b>Recommendations:</b></p> <p>We recommend that the OAG sources for quotations and enters into procurement transactions only with companies in its prequalified list of suppliers.</p>	
<p><b>Recommendation priority: Priority 2</b></p>	
<p><b>Comments from the OAG</b></p> <p>OAG only procures from prequalified suppliers except for special categories already prequalified by National treasury or Government institutions e.g. Kenya School of monetary Studies or where an open tender to the public is floated.</p>	
<p><b>Further comments from the auditor</b></p> <p>The list attached as Annex II was derived after considering the issues as per the OAG comments above and in liaison with the OAG Procurement Officer. The entities in Annex II are private in nature and could not have used the prequalified lists of the National Treasury.</p>	

<b>Finding n°:6</b>	<b>Title: Procurement contracts initiated when there were no funds to pay the suppliers</b>		
<b>Description of the finding:</b>			
The following procurement contracts were entered into without regard to the fact that the OAG had no funds in the bank account to pay the contractors;			
<b>Date</b>	<b>Reference</b>	<b>Details</b>	<b>Amount (Kshs)</b>
30/06/2014	PV4948	Payment to Next Technologies Ltd for the supply and commissioning of server hardware.	64,581,839
30/06/2014	PV5076	Payment to Act sure Office for the purchase of office furniture	1,798,875
30/06/2014	PV4956	Payment to Utalii Hotel for accommodation facility	1,137,900
30/06/2014	PV5107	Payment to Blue Pacific Stationers for the purchase of HP MFP Printers	1,808,000
Section 26(6) of the public Procurement and Disposals Act 2005 state that procuring entity shall not commence procurement until it is satisfied that sufficient funds have been set aside in its budget to meet the obligations of the resulting contract. Also, section 10(2) (d) of the Act, regulation 2006 state that tender committee shall deliberate and adjudicate on a matter tabled before it after it has ensured that funds are available for the procurement under consideration.			
<b>Implication</b>			
There is the risk of law suits resulting from the inability to pay for the contracts executed by third parties for the OAG.			
<b>Recommendations:</b>			
We recommend that the OAG commence procurement transactions only after ensuring that funds are available to meet the resulting obligations under the procurement contract.			
<b>Recommendation priority:</b> Priority 2			
<b>Comments from the OAG:</b>			
Change in the GoK funding policy which came with the G-pay in which first the OAG processes the payment vouchers and posts them to the IFMIS system before The Treasury funds the transaction resulting into the IFMIS system sometimes showing overdrawn balances.			

<b>Finding n°:7</b>	<b>Title:</b> Differences noted between balances as per the schedules and as per the financial statements		
<b>Description of the finding:</b>			
We reviewed the financial statements and the supporting schedules provided as at 30 June 2014 and noted the following differences;			
<b>Account details</b>	<b>Balance as per the schedule (Kshs)</b>	<b>Balance as per the financial statement (Kshs)</b>	<b>Difference (Kshs)</b>
Printing ,advertising, supplies and services	5,691,925	5,721,705	(29,780)
Insurance Cost	115,000,044	115,090,044	90,000
<b>Implications:</b>			
The financial statements may be misstated if the balances as per the schedules differ from the balances as per the financial statements.			
<b>Recommendations:</b>			
We recommend that the OAG prepares accurate financial statements with balances agreeing to the supporting schedules.			
<b>Recommendation priority:</b> Priority 2			
<b>Comments from the OAG:</b>			
The small differences occurred as a result of corrections on the financial statements to tie them to the ledger. The schedules have been amended to tie.			

<b>Finding n°: 8</b>	<b>Title: Inadequacies noted in the Fixed Assets Register (FAR)</b>
<b>Description of the finding</b>	
Noted the following inadequacies in the fixed assets register (FAR);	
<ol style="list-style-type: none"><li>i. The fixed assets register provided did not show the value of all the motor vehicles. Out of a total of 94 number motor vehicles, only 55 number motor vehicles had values. The remaining 39 number vehicles were incorrectly shown to have nil values as detailed in annex I.</li><li>ii. Out of the 225 number printers, only 8 number printers had values amounting to Kshs. 5,200,000</li><li>iii. Out of the 455 number desk top computers, only 79 number desk top computers had their costs / values indicated amounting to Kshs. 7,687,300.</li></ol>	
<b>Implication</b>	
A fixed assets register without all the asset values is incomplete without the assets costs or values indicated. This also imply the inadequate recording of the assets as some assets may have been omitted from the register.	
<b>Recommendations:</b>	
We recommend that the all the OAG vehicles, printers and desk top computers are valued and the values disclosed in the OAG records for control purposes.	
<b>Recommendation priority:</b> Priority 2	
<b>Comments from the OAG</b>	
The Valuation of Assets and Upgrading of fixed assets Register is being done in 2015/2016. The valuation of motor vehicles has been completed while the valuation of Furniture and equipment is expected to be completed before 30 <sup>th</sup> June 2016.	
<b>Further comments from the auditor</b>	
The issues to be followed up by the incoming auditor for the fiscal year 2014/2015	

<b>Finding n°: 9</b>	<b>Title:</b> Weaknesses noted in the OAG internal control systems and corporate governance
<p><b>Description of the findings</b></p> <p>We reviewed the OAG internal control system and corporate governance and noted that the systems of controls and corporate governance at the OAG were applied with inadequacies in some of them as follows;</p> <ul style="list-style-type: none"> <li>i. The regional hub internal audits were not conducted with sufficient regularity. Consequently, only the internal audit reports for Garissa, Embu and Mombasa regional hub offices were available.</li> <li>ii. There was no upper limit for the cash payments.</li> <li>iii. The OAG had no minutes of the audit committee meetings nor was there evidence that the audit committee ever meets.</li> <li>iv. Also, there was inadequate follow up procedures on the issues raised by the external auditors. Most of the issues raised during the audit for the year 2012/2013 remained unresolved.</li> </ul>	
<p><b>Implications</b></p> <ul style="list-style-type: none"> <li>i. Without regular internal audits of the regional hub offices, errors and irregularities could occur and persist for long without being detected and corrected.</li> <li>ii. There high inherent risk of fraud in relation to huge cash payments.</li> <li>iii. The lack of an effective audit committee and the follow up procedures of the audit issues raised could lead to a backlog of audit issues which could be difficult to resolve.</li> </ul>	
<p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>i. We recommend that the OAG conducts regular internal audits for all its regional hub offices.</li> <li>ii. We recommend that the OAG puts an upper limit / threshold on the amounts paid in cash for better cash management.</li> <li>iii. We also recommend that the OAG ensures all the issues raised during the audits are addressed before the commencement of the subsequent audits and that the audit committee is effective enough to discharge its mandate.</li> </ul>	
<p><b>Recommendation priority:</b> Priority 1</p>	
<p><b>Comments from the OAG</b></p> <p>The OAG is committed to improve its internal controls and has started by having the policies and procedures for all its main functions.</p> <p>Significant improvements have been made in bank reconciliations and other items that have been made in bank reconciliations and other items that have been closed.</p> <p>Further improvements are expected as the internal audit function is strengthened.</p>	

<b>Finding n°: 10</b>	<b>Title: (Under) / over valuation of inventories:</b>
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**Description of the finding**

We noted the inventories schedule provided showed (under) / over valuation of inventories. The (under) / over valuation of inventories resulted from the arbitrary allocation of the inventory values as per the stock sheet (Column E) and not as a product of the inventory quantity as per the stock sheet (Column B) and the more reliable unit cost as per the bin cards (Column D) as shown in the following table;

Inventory item	Correct Bin card quantity	Quantity in the stock sheet	Unit cost as per the stock sheet	Correct unit cost as per Bin card	Inventory value as per the stock sheet (E)	Correct inventory value	(Under) / over valuation
	(A)	(B)	(C)	(D)	Kshs	Kshs	Kshs
Box files	205	49	150	150	7,350	30,750	(23,400)
Spring files	3,766	120	80	80	9,600	301,280	(291,680)
Casio calculators	10	20	1,200	1,200	24,000	12,000	12,000
UPS Nova 600 AVR USB	16	1	7,000	7,000	7,000	112,000	(105,000)
Rapid classic staplers	87	-	-	3,950	-	343,650	(343,650)
Scientific calculators	67	-	-	2,900	-	194,300	(194,300)
Kyocera tonner TK 340	2	-	-	8,500	-	17,000	(17,000)
Tonner 964	1	-	-	10,500	-	10,500	(10,500)
Tonner 92A	11	-	-	10,500	-	115,500	(115,500)
Tonner 16A	3	-	-	10,500	-	31,500	(31,500)
A4 envelopes	29	29	10	10	145,000	290	144,710
Pritt	5 boxes	5 boxes	75	75	36,000	375	35,625
Documents tapes ½" 400 X 30m	5 boxes	5 boxes	350	350	437,500	1,750	435,750
File divider A4 paper	24½ boxes	24½ boxes	60	60	81,000	1,470	79,530

Kestler glue	9 boxes	9 boxes	150	150	81,000	1,350	79,650
Paper clips	4 cartons	4 cartons	60	60	60,000	240	59,760
DL envelops	13 boxes	13 boxes	5	5	52,000	65	51,935
Time sheets	44 bundles	44 bundles	20	20	88,000	880	87,120
A4 printing papers	160 boxes	160 boxes	495	495	396,000	79,200	316,800
Marker pen No.6881	44 boxes	44 boxes	40	40	21,120	1,760	19,360
Marker pen no. G-12T(snowman)	3 boxes	3 boxes	40	40	19,200	120	19,080
Report of the survey F.O.57	3 bundles	3 bundles	3,000	3,000	-	9,000	(9,000)
Steples Kangaroo	2 boxes	2 boxes	150	150	-	300	(300)
Adding paper rolls	4 boxes	4 boxes	500	500	-	2,000	(2,000)
Envelops 400 pcs 3B	9 boxes	9 boxes	10	10	45,000	900	44,100
Library borrowing & book cards	1 box	1 box	120	120	24,000	120	23,880
Ball pens	2 boxes	2 boxes	18	18	48,000	36	47,964
<b>Net over valuation</b>							<b>313,434</b>

#### Implication

The (above) / over valuation of the inventories has a bearing on the inventory value in the financial statements.

#### Recommendation:

We recommend that the OAG determines the inventory values using the quantities and unit costs in the bin cards.

**Recommendation priority:** Priority 2

#### Comments from the OAG

Inventory values shall be determined and adjusted using the quantities and unit values as recommended.

<b>Finding n°:11</b>	<b>Title: Other inadequacies in the inventories / stores</b>
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**Description of the findings**

We noted the following inaccuracies in relation to the stores items as follows;

(i). Included in the stock / stores sheet were items of dead stock amounting to Kshs. 106,910 as shown below;

Stores item	Quantity (Units)	Unit price (Kshs)	Cost (Kshs)
Correction fluid	115	50	5,750
Epson ribbon cartridge	48	45	2,160
Toner cartridge 92295A	4	9,500	38,000
Genuine Panasonic Ink film	15	120	1,800
Head cleaner	21	2,500	52,500
Deluxe computer stationery	1 box	5,200	5,200
Feather touch ink pad	10	150	1,500
<b>Total</b>			<b>106,910</b>

(ii). Noted big disparities between the stores quantities as per the bin cards and the quantities as per the stores sheet as shown below;

Stores item	Quantity as per the bin card	Quantity as per the stores sheet	Unit cost (Kshs)	Stores value as per the stores sheet (Kshs)	Stores value based on the bin card quantity (Kshs)
Tonner Q3960A	8,607	3	18,500	55,500	159,229,500
Tonner Q3961A	10,416	8	19,000	152,000	197,904,000
Tonner Q3962A	10,416	10	18,500	185,000	192,696,000
Tonner Q3963A	7,750	9	18,500	166,500	143,375,000
<b>Total</b>				<b>559,000</b>	<b>693,204,500</b>

**Implication**

- i. The existence of dead stock / store items implies loss of value for money.
- ii. The huge disparities between the bin card and the stock sheet quantities result into the under / over valuation of the inventories / store items.

**Recommendations:**

We recommend that;

- i. Stores items should be bought on demand to avoid the possibility of dead stock / stores.
- ii. Regular reconciliations to be conducted between the stock / stores sheets and the bin card quantities.

**Recommendation priority:** Priority 2

**Comments from the OAG**

Items considered as dead stock have now been earmarked for disposal in the 2015-2016 financial year. However the stores records/ bin cards have been enhanced and are regularly up dated to reflect on the most current and accurate position.

**Further comments from the auditor**

The said improvements are issues to be followed up by the incoming auditor for the fiscal year 2014/2015.

Finding n <sup>o</sup> : 12	Title: Non-compliance with Government Regulations and Procedures relating to temporary imprest				
<b>Description of the findings:</b>					
(i). Chapter 5(6)(5) of The Government Regulations and Procedures relating to temporary imprest require that the holder of the temporary imprest account for the imprest within 48 hours after returning to duty station. We however noted many cases of non-compliance with the Government Procedures relating to imprest surrender as follows;					
Name	Warrant Number	Due date	Amount (Kshs)	Date surrendered	Delay in months
Walter Odhiambo Owele	1738377	11/10/2013	130,000	04/10/2014	12 months
Alex Nthiga Rugera	1707097	11/10/2013	240,051	10/09/2015	23 months
Kennedy Mwangi Mwaniki	1808417	11/11/2013	292,000	09/09/2015	22 months
Caroline Naisinya Yiapan	1808326	11/11/2013	131,000	16/06/2014	7 months
Samuel Mokanya Bakora	1852581	10/01/2014	117,000	20/05/2014	4 months
Bernard Waruiru Maina	1937585	30/05/2014	160,000	04/09/2014	3 months
Philip Ouma Owidi	1937551	30/05/2014	837,500	27/10/2014	5 months
Ben Muok	1937552	30/05/2014	100,000	13/10/2014	4 months
Vincent Fidelis Mboya Mulwa	1908898	10/06/2014	6,000	15/10/2014	4 months
Wilson Kimeli Maiyo	1937662	20/06/2014	220,000	16/09/2014	3 months
Samule Mokaya Bakora	1997135	30/06/2014	260,000	09/09/2014	2 months
Esau Agola Ndeda	1937691	30/06/2014	301,500	22/09/2014	3 months
Lucy Nyaguthii Mugo	1937707	30/06/2014	165,000	16/09/2014	3 months
Joseph Mutua Kasivu	1937727	30/06/2014	230,000	17/12/2014	5.5 months
Sophia Atieno Wadulo	1937716	30/06/2014	185,000	18/02/2015	7 months
Eric Onyango Odero	1937723	30/06/2014	130,000	18/12/2014	7 months
Edward Chotero Mugeni	1997104	30/06/2014	232,000	21/01/2015	6 months
Samson Nzwii Mutua	1937734	30/06/2014	137,500	22/01/2015	6 months
Eugenia Auma Onyuka	1997126	30/06/2014	120,000	21/08/2014	1.5 months
Jashon Ochola Nunda	1997136	30/06/2014	120,000	28/08/2014	2 months
Dennis Muli Muli	1937720	30/06/2014	162,500	17/12/2014	5.5 months

Hassan Lwambi Kimandi	1937726	30/06/2014	100,000	16/12/2014	5.5. months
David Kesengot Cheronon	1937719	30/06/2014	148,000	16/09/2014	2.5 months

(ii). Noted instances where staff held more than one un-surrendered imprest per person as at 30<sup>th</sup> June 2014 as follows;

Name	Warrant Number	Date issued	Amount (Kshs)
Winfred Wangari Muriithi	1808281	06/09/2013	45,500
Winfred Wangari Muriithi	1908784	20/03/2014	15,000
Winfred Wangari Muriithi	1852627	26/11/2013	25,000
Walter Odhiambo Owele	1738377	12/08/2013	130,000
Walter Odhiambo Owele	1997065	22/05/2014	80,000
Lydia Amondi Kwanya	1703572	14/08/2013	44,000
Lydia Amondi Kwanya	1997113	30/05/2014	90,000
Alex Nthiga Rugera	1707086	16/08/2013	140,000
Alex Nthiga Rugera	1707097	22/08/2013	240,051
Alex Nthiga Rugera	1707100	06/09/2013	63,000
David Kesengot Cheronon	1937719	20/05/2014	148,000
David Kesengot Cheronon	1908932	21/03/2014	200,000
Vincent Fidelis Mboya Mulwa	1937553	15/04/2014	186,915
Vincent Fidelis Mboya Mulwa	1908898	30/04/2014	186,915
Joshua Mbimwa Kereda	1623744	05/08/2013	100,000
Joshua Mbimwa Kereda	1808344	20/09/2013	100,000
Elijah Nyabuto Omae	1623748	05/08/2013	100,000
Elijah Nyabuto Omae	1808349	20/09/2013	100,000

Chapter 5(6)(5) of the Government Regulations and Procedures for temporary imprest prohibits issuance of a subsequent imprest until the previously issued imprest is accounted for.

**Implications:**

Multiple imprest held by staff implies the following:

- a) Non-compliance with government regulations relating to temporary imprest.
- b) Increased risk of loss of funds.

The long outstanding imprests may be construed from a tax perspective to be loans advanced to staff

which is due to be taxed under the fringe benefits tax regulations.

**Recommendations:**

- (i). We recommend that managements ensures that the imprest surrender regulations are strictly adhered to.
- (ii). We also recommend that KENAO adopts other imprest recovery policies measures i.e. deducting the long overdue and un-surrendered imprest from staff salaries until such amounts are surrendered or are fully recovered.

**Recommendation priority:** Priority 1

**Comments from the OAG:**

As at 20<sup>th</sup> August 2015 all the imprests had been fully accounted for with imprests worth Kshs.1.5m had been sent to the payroll section for deduction.

OAG is following the Government regulations while issuing new imprests and following up the outstanding imprests for recovery.

**Further comments from the auditor**

This should be a follow up issue for the incoming auditor.

**Finding n°: 13**

**Title: Inadequate accounting for the accounts receivables / AIA income.**

**Description of the findings**

The OAG accounts receivables comprise Kshs. 345,193,909 due from the State Corporations and the Local Authorities and Kshs. 176,557,917 due from the defunct Local Authorities as per the receivables listings provided by the OAG as at 30 June 2014. The Transitional Authority via their letter to the OAG reference number TA / 2 / 5 / VOL. VIII (81) dated 23 July 2014 asked the OAG to temporarily suspend sending the audit fees demand notes to the defunct local authorities until such time that the exercise of verifying the assets and liabilities will have been completed. Consequently, the amount due from the defunct Local Authorities Kshs. 176,557,917 was neither provided for nor disclosed in the financial statements.

(i). We performed a receivables circularization for 40 number state corporations and local authorities accounts receivables with balances totaling to Kshs. 209,203,986 and noted the inadequate accounting for the receivables in which the balances as per the OAG listing materially differed from the balances confirmed by the 5 number clients who replied as shown in the table below;

	<b>Balance Per Ledger</b>	<b>Balance Per Confirmation</b>	<b>Difference</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Kenya Wild Life Services (KWS)	16,289,790	5,800,000	10,489,790
Nairobi Water & Sewerage Company	8,855,393	17,207,650	(8,352,257)
Kenya National Highways Authority (KeNHA)	5,900,000	3,000,000	2,900,000
Kenya Airports Authority (KAA)	8,336,000	2,230,000	6,106,000
Kenya Roads Board (KRB)	4,058,621	2,500,000	1,558,621
Total balances	43,439,804	30,737,650	12,702,154

(ii). The schedule of the amount of audit fees / AIA received from the clients for the period 1 July 2013 to 30 June 2014 amounting to Kshs 151,565,620 was incomplete as it included Kshs. 66,031,349 with no client details.

**Implication**

- i. The accounts receivables and consequently the Appropriations In Aid (AIA) as at 30 June 2014 was misstated as the amounts subsequently received after the year end materially differed from the amounts shown as receivable as at 30 June 2014. This also presents a high risk of incompleteness of the AIA income.
- ii. Amount of audit fees received from the clients could be misstated due to the incomplete / inaccurate income schedule.

**Recommendations:**

- i. We recommend that the OAG institutes a receivables reconciliation process in which amounts due from the clients as per the OAG records are periodically reconciled with the balances as per the clients' ledgers.
- ii. We also recommend that the OAG acquires a receivables accounting package for accurate receivables accounting and recording.

**Recommendation priority: Priority 1**

**Comments from the OAG**

All major clients have been visited and reconciliation done.

A receivable management package has been implemented for proper recording and accounting

**Further comments from the auditor**

This should be followed up by the in-coming auditor for the period 1 July 2014 to 30 June 2015.

Finding n°: 14	Title: Transactions Posted to the incorrect Budget lines.			
<b>Description of the finding:</b>				
<p>Chapter 15 (Section 15(4)) of the Government Financial Regulations and Procedures provides that one of the functions of a budget is to provide basis for budgetary control. The OAG prepares annual budgets every financial year to determine financial resources required to carry out their external audit plans and other activities for that particular year. The budget is broken down into various expenditure heads where various types of expenditure should be charged.</p> <p>Sec 15(12) further stipulates that the expenditure on voted services is definitely limited and arranged by the estimates and no expenditure for which no provision has been included therein may be incurred. Accounting officer must ensure that the requirements of services are planned on such a scale that the existing provision for expenditure shall not be exceeded.</p> <p>Instances of non-compliance with budget lines were noted as shown in the table below;</p>				
Date	PV No.	Amount Kshs	Description	Explanation of the finding
06-Nov-2013	PV1442	1,599,325	Airtime / scratch cards purchases	Airtime paid to staff incorrectly charged to medical costs budget.
28-Jan-2014	PV2268	301,545	vehicle maintenance expenses	Purchase of vehicle tyres incorrectly classified under medical costs budget.
10-Mar-2014	PV3021	990,000	Great Grace Agencies	Payment for supply of wall calendars incorrectly classified under medical costs budget.
04-Feb - 2014	PV2485	1,150,000	Purchase of Diaries	Purchase of diaries incorrectly posted to fuel expenses budget
30-June-2014	PV4956	1,137,900	Conference and accommodation facilities	Incorrectly posted to contracted professional services budget.
28-June-2014	PV5018	580,000	Provision of In-House training for retirees	Incorrectly posted under purchase of ICT network and communications equipment
08-May-2014	PV5018	607,650	Rent for Mombasa Hub Team II at Social Security House 9th Floor, for the Months of April to June 2014	Incorrectly posted under minor alterations
<b>Implications:</b>				
Charging expenditures to incorrect budget lines indicate a lack of budgetary control system as part of the internal control system.				
<b>Recommendations:</b>				
We recommend that budget lines be strictly adhered to as swapping expenditures between budget lines distort the subsequent year budgets where annual budgets are done on an incremental basis. Budget re-allocations should be well documented indicating the approvals sought and granted for the reallocations.				
<b>Recommendation priority:</b> Priority 1				

**Comments from the OAG:**

The OAG will be carrying out quarterly review of the budget against the actual expenditure on individual expenditure lines and request for budget reallocations from the National Treasury.

Past budget reallocations are well documented and are contained in the supplementary column of the vote book.

Finding n°: 15		Title: Overstatement of staff medical insurance costs			
<b>Description of the finding:</b>					
We noted that medical expenses were overstated by the amount paid by the OAG to various hospitals on behalf of the staff. We also note that OAG funds were tied up on expenditure not budgeted for; hence staff should be encouraged to attend medical facilities which are within their limits.					
Examples noted are as indicated in the table here below;					
Date	Ref	Amount (Kshs)	Description	Issues Noted	Amount Overstated Kshs
08-Nov-2013	PV1119	340,242	Nairobi women's hospital	The correct amount as per payment voucher number 1119 was Kshs. 352,552A review of the ledger indicated that the amount was incorrectly double posted and eventually booked three times in the ledger asKshs. 340,242 booked twice and Kshs. 352,552 booked i.e. overstatement is the duplication of Kshs.340,242.	680,484
09-Dec-2013	PV2003	1,000,000	Karen Hospital	The OAG pad Kshs. 1,000,000 to Karen Hospital to secure the release of staff from hospital. The staff (Victor Omoro Nyairabu) had a balance of only Kshs. 145,677 remaining on his medical cover limit. Since the staff subsequently refunded the Kshs. 1,000,000 to the OAG, we feel that only Kshs. 145,677 and not the entire Kshs. 1,000,000 should have been booked as an expense hence the expenditure has been overstated by the difference i.e. Kshs. 854,324.	854,324
17-Dec-2013	PV1906	2,913,507	Nairobi Hospital	The OAG staff (Geoffrey Irungu) medical bill in Nairobi Hospital was Kshs 2,913,507while his cover limit was Kshs. 1,000,000. The medical bill of Kshs. 2,913,507 was paid by the OAG and expensed fully in the ledger despite the staff having refunded Kshs. 1,600,000 on 14 November 2013. The medical expenses in this regard was overstated by Kshs. 1,600,000.	1,600,000
15-Apr-2014	PV3542	429,972	Aga Khan Hospital - Kisumu	Included in this payment voucher is an invoice for Gaya Tom Jalango from Aghan Hospital in Kisumu of Kshs 72,187 which was claimed in full yet there was an NHIF rebate of Kshs 7,200 deducted from the bill. The medical bill has thus been overstated by the amount of the NHIF rebate.	7,200
<b>Total</b>					<b>3,142,008</b>

**Implications:**

Overstatement of medical expenditure indicates that financial statements (statement of comprehensive income) are not fairly stated.

**Recommendations:**

We recommend that strict expenditure controls are put in place to ensure that staff medical cover limits are not exceeded and where the staff have refunded excess medical bills settled by the OAG on their behalf, correct adjustments are made before the end of the financial year.

**Recommendation priority:** Priority 1

**Comments from the OAG:**

The office has a procedure to deal with serious medical cases where a staff is hospitalized for long or undergoes specialized medical procedure beyond their entitlement. The OAG commits itself through an undertaking giving the limit however where the patient is still critical and the amount is exceeded the treatment cannot be stopped or patient discharged in such condition.

The OAG will normally settle the bill and charge it to medical expenditure as it engages the staff on a repayment plan of the excess amount or the staff may apply to the Auditor General for a moratorium/Ex-gratia consideration.

Kshs 680,484 had already been reversed in the IFMIS system so there is no overstatement. We are pursuing the hospital for a credit note for the Kshs 7,200 as indicated above.

**Further comments from the auditor**

The reversal of Kshs. 680,484 and the recovery / credit note for Kshs. 7,200 should be follow up issues during the fiscal year 2014/2015 audit.

<b>Finding n°: 16</b>	<b>Title: Inadequacies in personnel management</b>
<p><b>Description of the findings:</b></p> <p>We reviewed a sample of the OAG staff files and other aspects of the organization's operational efficiency regarding the payroll and staff management and noted that;</p> <ol style="list-style-type: none"> <li>i. The IFMIS financial management software used by the OAG is not synched with the payroll software (Memory soft) used by the OAG. This creates room for manual intervention in posting the payroll amounts manually into the IFMIS cash book.</li> <li>ii. Noted that the contract for Mr. Alex Rungera who served as Deputy Auditor General (DAG) expired on 28 February 2014. Our audit of the payroll discovered that despite this, the staff was still in the OAG payroll for March 2014, April 2014, May 2014 and June 2014 yet there was no evidence of contract renewal in his personal file.</li> <li>iii. The OAG staff (Ms. Milchah Oluoch) had no PIN, national identity card (ID) and copies of academic and professional certificates in her personal file.</li> </ol>	
<p><b>Implications:</b></p> <ol style="list-style-type: none"> <li>i. Errors and irregularities could occur in the payroll without being detected and corrected on a timely manner.</li> <li>ii. There exists the risk that some of the OAG staff still serving and paid from the OAG funds are retired hence the risk of the OAG incurring ineligible staff costs.</li> </ol>	
<p><b>Recommendations:</b></p> <ol style="list-style-type: none"> <li>i. We recommend that the OAG ensures that its payroll software (Memory soft) is synched with the IFMIS financial management software. This recommendation can be effected together with other recommendations from the IFMIS effectiveness review once that report is completed.</li> <li>ii. The OAG should ensure that all its staff have contract letters, letters for renewal of their contracts or the appointment letters. This would ensure that salaries are paid only to the bona fide staff.</li> </ol>	
<p><b>Recommendation Priority:</b> Priority 2</p>	
<p><b>Comments from the OAG:</b></p> <p>The OAG is revisiting the issue of an ERP with National Treasury especially after the enactment of Public Audit Act 2015 which allows more room for financial independence.</p> <p>The contract for Mr Rugera had been renewed and a copy has now been filed.</p> <p>Milcah Oluoch who is on secondment to OAG has also now provided the requisite details for her personal file.</p>	
<p><b>Further comments from the auditor</b></p> <p>The issues should be followed up by the incoming auditor for the period 1 July 2014 to 30 June 2015.</p>	

<b>Finding n°: 17</b>	<b>Title: Inadequacies noted in the procurement budget / procurement plan</b>		
<b>Description of the finding:</b>			
We reviewed the procurement plan against the expenditure incurred during the period 1 July 2013 to 30 June 2014 and noted the following shortcomings;			
i. Material differences noted between the amounts budgeted and the amounts spent. No evidence of approvals for the overspent amounts as shown in the table below;			
<b>Item particulars</b>	<b>Amount spent (Kshs)</b>	<b>Budgeted amount (Kshs)</b>	<b>Over expenditure (Kshs)</b>
Audit vault	131,994,460	100,000,000	31,994,460
Laptops and IPADS	61,246,260	54,196,100	7,050,160
<b>Total</b>	<b>193,240,720</b>	<b>154,196,100</b>	<b>39,044,620</b>
ii. The procurement plan provided was dated and approved on 12 May 2014 whereas it should have been applicable for the period 1 July 2013 to 30 June 2014.			
<b>Implications:</b>			
i. Funds meant for key projects could be spent on non-key / non-essential projects if procurement budget guidelines are not strictly followed.			
ii. There could be poor prioritization of activities if procurement budgets are drawn and approved way after most of the expenditures were incurred.			
<b>Recommendations:</b>			
i. We recommend that the OAG adheres to its procurement budget limits and that prior approvals are obtained especially for major deviations between the actual and budgeted costs.			
ii. We also recommend that procurement budgets are drawn and approved before the commencement of the budget period.			
<b>Recommendation Priority: Priority 2</b>			
<b>Comments from the OAG:</b>			
The Procurement Plan is a cost guide based on a best estimate and some variances will inevitably occur. The Procurement Plan are now being drawn and approved in the beginning of financial year and revised on a need basis as the year progresses.			

## **ANNEXES**

**ANNEX I: Motor vehicles not valued and disclosed in the financial statements**

No	Vehicle Registration	Make	Model	Location	Value Disclosed In The Listing (Kshs)	Valuation (December 2015)
1	GK B281F	Nissan	Civilian Bus	Nairobi	NIL	6,400,000 RECENTLY BOUGHT (PURCHASE PRICE)
2	GK A181U	Volkswagen	Passat	Nairobi	NIL	1,415,000
3	GK A232D	Land Rover	Pick – up	Nairobi	NIL	372,000
4	GK A712Q	Omnibus – Maruti	S / Body	Nairobi	NIL	265,000
5	GK A091D	Peugeot - 504	Saloon	Nairobi	NIL	0 (Boarded for sale)
6	GK A920N	Toyota Corolla	Saloon	Nairobi	NIL	605,000
7	GK H811	Peugeot – 504	Saloon	Nairobi	NIL	18,000
8	GK M628	Volvo	Saloon	Nairobi	NIL	483,000
9	GK A043L	Land Rover	Station Wagon	Mombasa	NIL	715,840
10	GK A059L	Land Rover	Station Wagon	Eldoret	NIL	415,840
11	GK A060L	Land Rover	Station Wagon	Kakamega	NIL	326,640
12	GK A172G	Toyota Prado	Station Wagon	Nairobi	NIL	2,051,000
13	GK A232S	Land Rover	Station Wagon	Nakuru	NIL	855,360
14	GK A322F	Peugeot – 504	Station Wagon	Kisumu	NIL	SOLD

15	GK A459P	Land Rover	Station Wagon	Nyeri	NIL	686,800
16	GK A460P	Land Rover	Station Wagon	Eldoret	NIL	1,021,600
17	GK A461P	Land Rover	Station Wagon	Nakuru	NIL	767,680
18	GK A463F	Land Rover	Station Wagon	Nyeri	NIL	215,160
19	GK A464F	Land Rover	Station Wagon	Nairobi	NIL	0 (Boarded for sale)
20	GK A465F	Land Rover	Station Wagon	Kisumu	NIL	321,160
21	GK A532A	Peugeot - 504	Station Wagon	Embu	NIL	0 (Boarded for sale)
22	GK A533H	Isuzu Trooper	Station Wagon	Nyeri	NIL	0 (Boarded for sale)
23	GK A534G	Land Rover	Station Wagon	Embu	NIL	206,410
24	GK A534H	Isuzu Trooper	Station Wagon	Nairobi	NIL	0 (Boarded for sale)
25	GK A535G	Land Rover	Station Wagon	Garissa	NIL	704,440
26	GK A558H	Land Rover	Station Wagon	Mombasa	NIL	438,430
27	GK A559H	Nissan Patrol	Station Wagon	Nairobi	NIL	336,000
28	GK A560H	Nissan Patrol	Station Wagon	Nairobi	NIL	736,000
29	GK A578E	Land Rover	Station Wagon	Mombasa	NIL	165,608
30	GK A579E	Land Rover	Station wagon	Kisumu	NIL	265,600
31	GK A580E	Land Rover	Station wagon	Embu	NIL	312,160
32	GK A590E	Land Rover	Station wagon	Embu	NIL	102,239

33	GK A992J	Land Rover	Station wagon	Kisumu	NIL	442,075
34	GK A993J	Land Rover	Station wagon	Mombasa	NIL	445,450
35	GK A994J	Land Rover	Station wagon	Mombasa	NIL	528,779
36	GK F610	Land Rover	Station Wagon	Kisumu	NIL	0 (Boarded for sale)
37	GK R854	Peugeot - 504	Station Wagon	Nyeri	NIL	SOLD
38	GK W467	Peugeot - 504	Station Wagon	Nyeri	NIL	0 (Boarded for sale)
39	GK Y677	Land Rover	Station Wagon	Nyeri	NIL	266,000
40	GK Z415	Peugeot - 504	Station Wagon	Kisumu	NIL	0 (Boarded for sale)
41	GK Z516	Peugeot - 504	Station Wagon	Eldoret	NIL	0 (Boarded for sale)

NOTE: THE ABOVE VALUES ARE AS PER DECEMBER 2015 VALUATION

**ANNEX II: Suppliers awarded contracts but were not in the pre-qualified list of suppliers.**

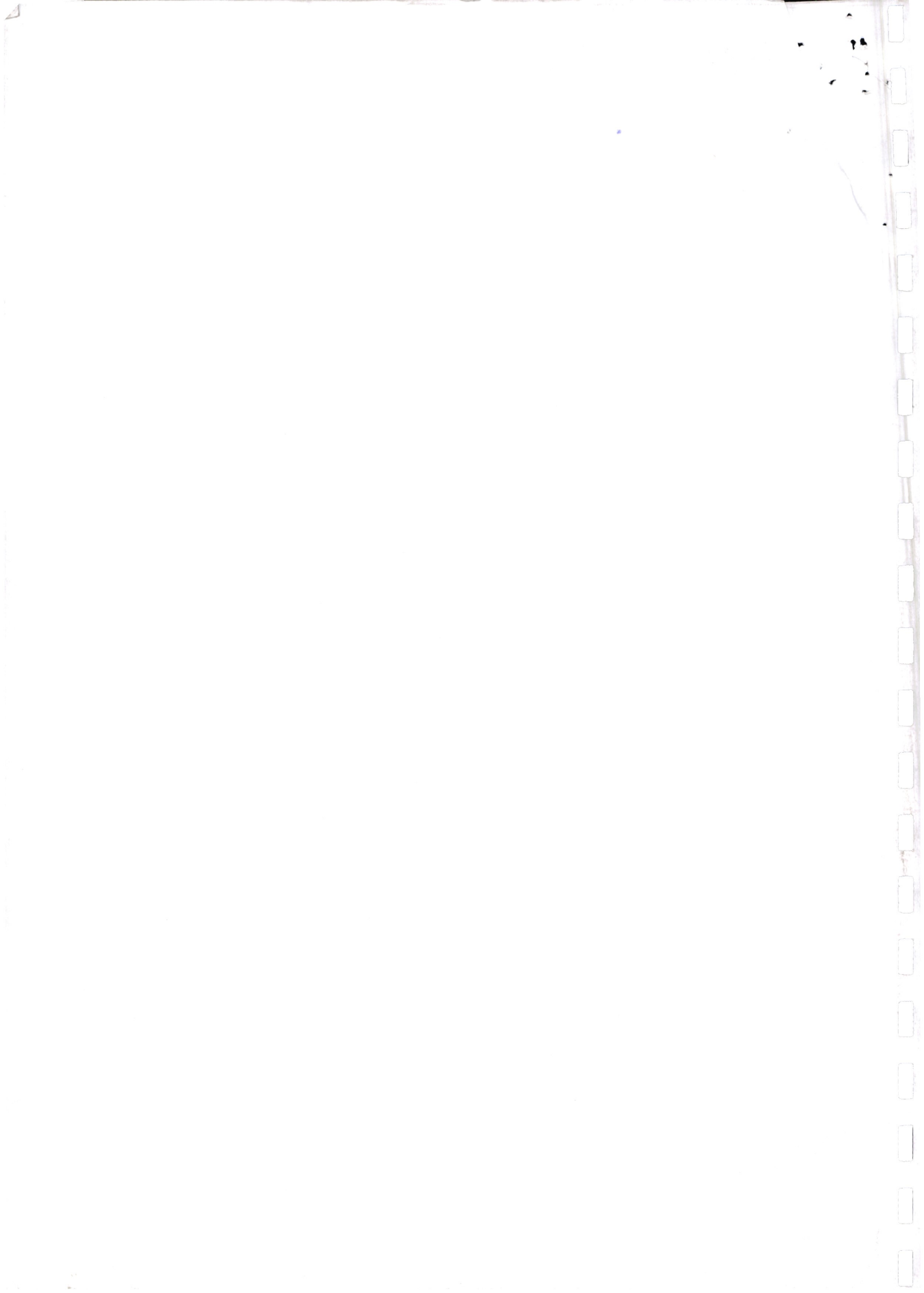
<b>Date</b>	<b>REF</b>	<b>Supplier / goods supplied</b>	<b>Amount (Kshs)</b>
22/8/2013	PV0132	Payment to PR Masters for services rendered during the AG signing ceremony for the accounts of the East African Community	629,300
06/03/2014	PV3088	Payment to PAH Procurement Consultants for the procurement of Training services	1,934,800
18/06/2014	PV4572	Payment to Tamarind for the procurement of translation services	949,715
31/11/2014	PV2274	Payment to Green Park Golf & Country complex for conference facilities & accommodation	1,440,010
31/03/2014	PV3159	Payment to Green Park Golf & Country Complex for provision of breakfast & Conference facilities	3,312,060
30/06/2014	PV4499	Payment to Twiga Car Hire	1,214,960
<b>Total</b>			<b>9,481,145</b>

**Annex III: Persons contacted or involved in the audit**

<b>The Auditor – Baker Tilly Merali's Certified Public Accountants</b>	
Madhav Bhandari	Partner
Rishi Bhandari	Associate Partner
Erastus Ochieng	Audit Supervisor
Edith Mutua	Audit Supervisor
Mary Irungu	Audit Senior
Abdi Ishmael	Audit Assistant

<b>The Entity subject to audit – Office of The Auditor General (OAG)</b>	
Edward Ouko	Auditor General
Agnes C.Mita	Deputy Auditor General (Corporate Services)
Charles Mwitari	Director of Finance
Philip Owidi	Director – Human Resources
Joseph Abok	Director of Internal Audit
Nebert Mandala	Senior manager – Finance
Rosemary Ogongo	Senior Manager – Procurement
Martha WanjiruMbau	Manager (Accounts)
Stephen Makau	Assistant Manager

<b>Parliamentary Service Commission (PSC)</b>	
Justin N. Bundi	Clerk of The National Assembly



7. Trade development and regulation, including—

- (a) Markets;
- (b) Trade licences (excluding regulation of professions);
- (c) Fair trading practices;
- (d) Local tourism; and
- (e) Cooperative societies.

S/No	Functions as outlined in the Fourth schedule	Unbundled Components	Status of Transfer as at 30 <sup>th</sup> Oct 2014	Remarks
	Trade development and regulation	<ul style="list-style-type: none"> <li>• Implementation of the National Trade Policy</li> <li>• Provision of Business Development Services to Micro, Small and Medium Businesses engaged in trade</li> <li>• Development of wholesale and retail trade</li> <li>• Management of credit scheme for micro and small businesses</li> <li>• Collection of business information and management of county Business Information Centres/Business Solution centres</li> <li>• Promotion of export business</li> <li>• Advocacy for provision of market</li> </ul>	Transferred via legal Notice No 116 dated 9 <sup>th</sup> August, 2013	

