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23/5
Paper laid by Majority PA
Whip, Hon. B. Wanjau
Aug

Tuesday 5/6/2018

DEVOLUTION OF AUDIT

② Head, Table Office
For Tabling
29/11

PARLIAMEN
OF KENYA
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ACRONYMS AND ABBREVIATIONS

AfDB	-	African Development Bank
AFROSAI-E	-	African Organisation of English-Speaking Supreme Audit Institutions
AMKIM	-	Associate Member, Kenya Institute of Management
CoB	-	Controller of Budget
CS	-	Corporate Services
DAG	-	Deputy Auditor General
EACC	-	Ethics Anti-Corruption Commission
FAO	-	Food and Agriculture Organisation
FCA	-	Fellow Member of the Institute of Chartered Accountants of England & Wales
ICPAK	-	Institute of Certified Public Accountants of Kenya
INTOSAI	-	International Organisation of Supreme Audit Institutions
INTOSAI GOV	-	International Organisation of Supreme Audit Institutions Governance
ISSAI	-	International Standards of Supreme Audit Institutions
PAC	-	Public Accounts Committee
PIC	-	Public Investment Committee
PPOA	-	Public Procurement Oversight Authority
RAM	-	Regularity Audit Manual
SA	-	Specialised Audit
SAI	-	Supreme Audit Institution



FOREWORD

The journey to transform and realign the Office of the Auditor-General (OAG) to meet the constitutional demands of the 2010 Kenya Constitution has been on for the last six years.

As the first Auditor-General under the new constitutional dispensation, my role was to interpret and operationalise the constitutional requirement of assuring and reporting to the public on the lawfulness and effectiveness of public expenditure. This wasn't an easy task. First we were auditing both the national government and the 47 county governments with the same limited resources used to audit the national government.

Secondly, a new mandate was bestowed upon the Auditor-General to confirm whether public funds were used effectively. For the last six years we have successfully restructured, realigned and re-engineered OAG towards carrying out our mandate.

This Annual Report for 2016/2017 financial year provides highlights on the strategies, programmes and activities the office has engaged in for the last 12 months with considerable social, economic and environmental impacts on the society. During the year under review, we established our regional presence in the counties by constructing the historic Garissa Regional Office, the first

building to be owned by the Office of the Auditor-General. We also commenced the construction of the Kakamega Regional Office which is set to be completed sometime in 2018. Works at the Eldoret Regional Office is also set to start. Plans are in place to build our landmark headquarters at a one and half acre plot we own in Upper Hill Nairobi.

As you go through this report, you will notice that we have achieved quite a lot in enhancing the capacity of staff, improving their welfare, providing tools and equipment for audit work, engaging with other stakeholders and participating in relevant international and regional events.

Our dream of delivering quality audit services in a paperless office has become a reality. This follows the successful launch of a culture change programme in early 2017.

I however, wish to single out one area for special mention. This is the automation of audit services at the Office of the Auditor-General. Our dream of delivering quality audit services in a paperless office has become a reality. This follows the successful launch of a culture change programme in early 2017. This change is driven by two

components that include budget as a control tool and use of audit management software dubbed "Audit bila jasho." This smart way of auditing will help us meet the constitutional timeline of reporting our findings by 31 December.

We intend to have all audit for 2017/2018 be done on teammate (our audit management software). Therefore, we continue to train all audit staff on the use of teammate and budget as a control tool. Ultimately, close to 900 members of staff will be trained on the use of this new tool.

There is a price to pay and an investment to make as we transform into a paperless office. The use of teammate means that laptops have become basic tools of trade at the OAG. Laptops have become pen and paper for us as we transform into a paperless office. Apart from that, there is an increased spending on the provision of internet and software licences for teammate. The cost, though prohibitive, will ensure that we work smart, efficiently and deliver quality audit reports. This is what it takes to transform an organisation.



FCPA, EDWARD R.O OUKO, CBS

AUDITOR-GENERAL

HIGHLIGHTS

ACHIEVEMENTS



Audited 1,046
Financial Statements



Conducted 10
Specialised Audits



Opened Newly Constructed OAG
Regional Office in Garissa



Improved
Staff Welfare



Initiated construction of
Regional Office in Kakamega



Professional Development
of 1130 members of staff



Positioned the Office
at the International space



Recruited 43
members of staff



Continued with devolution of audit
function to the counties



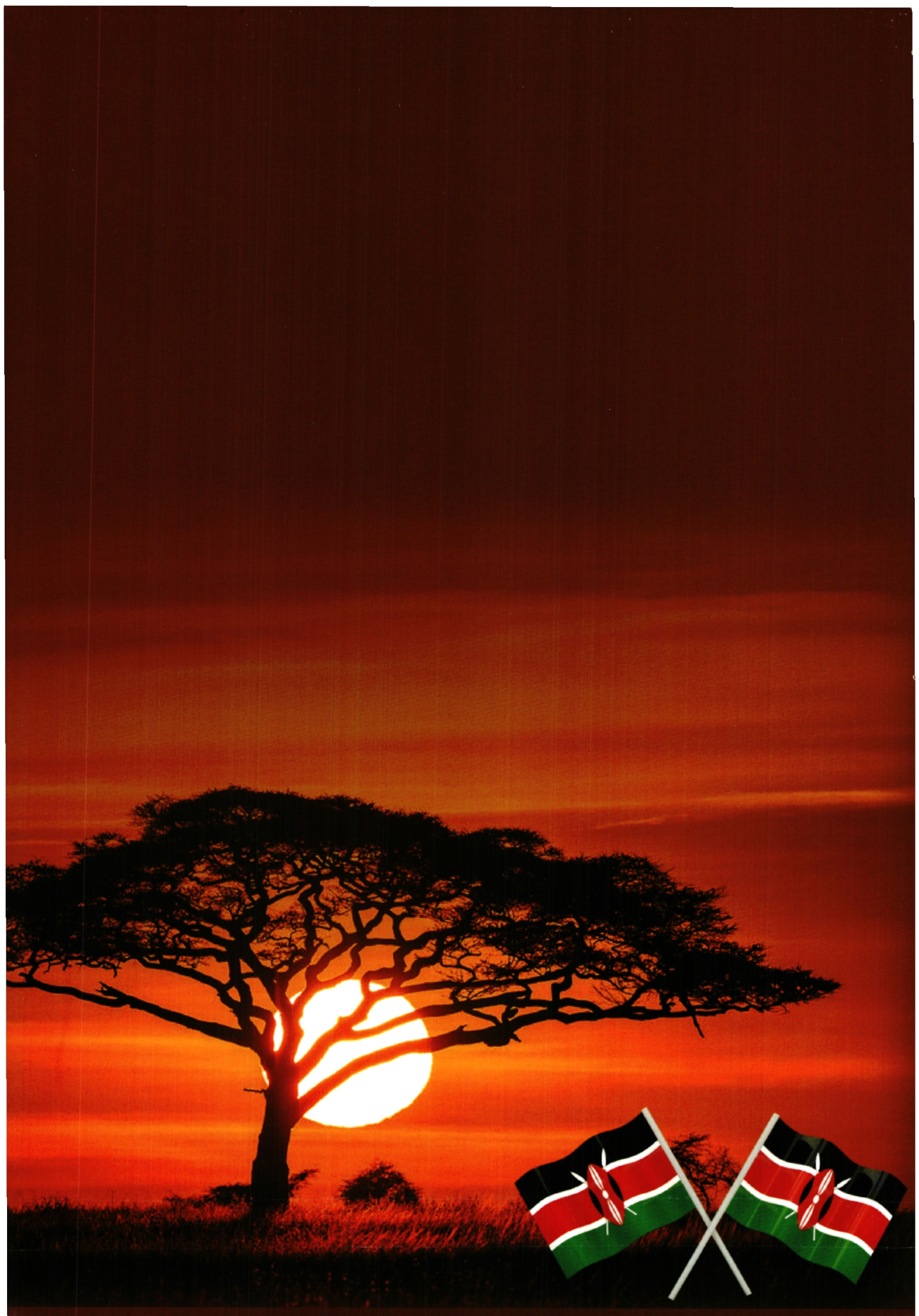
Gave Professional and Technical Support
to Supreme Audit Institutions across the world

CHALLENGES

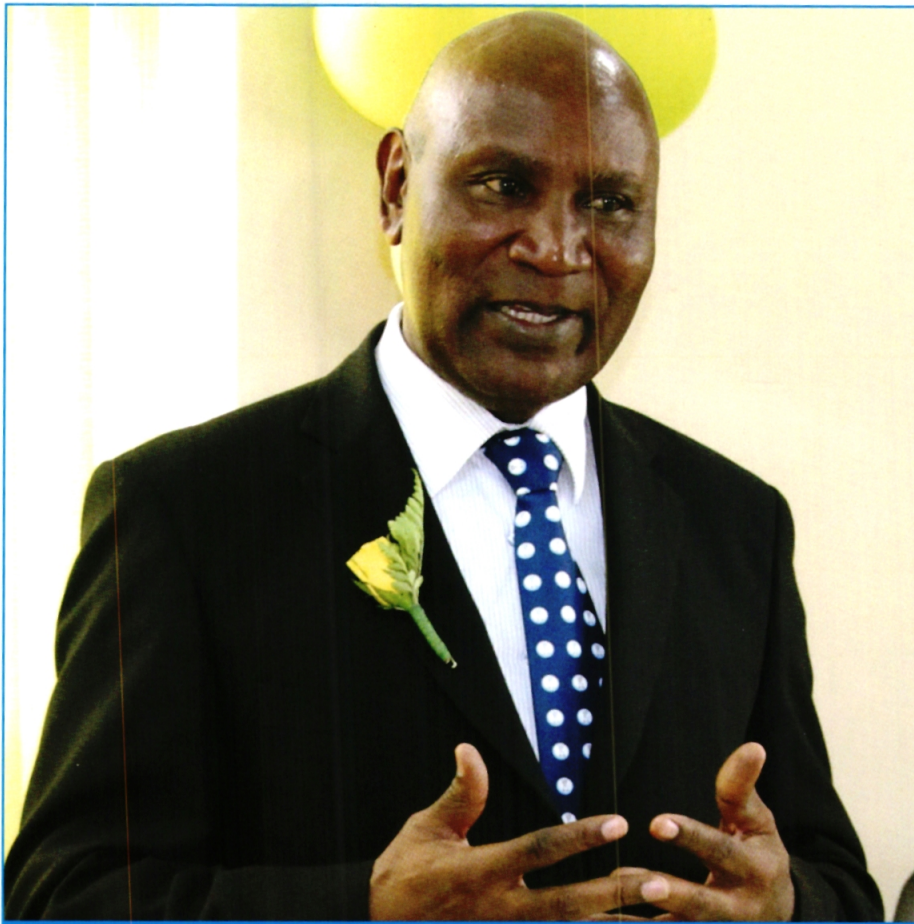


Funding challenges for
conducting timely audits

557
Staff Deficit



SENIOR MANAGEMENT



FCPA EDWARD R. O. OUKO, CBS
AUDITOR-GENERAL

Mr. Edward Ouko is the Auditor-General of the Republic of Kenya. He was appointed on 27 August, 2011 following a competitive recruitment process. He is a Fellow Member of the Institute of Chartered Accountants of England and Wales (FCA) and is a co-opted Council Member of the Institute representing Africa.

He is also a registered member of the Institute of Certified Public Accountants of Kenya (ICPAK) and holds a B.Com Degree (Hons) in Finance and Accounting from the University of Nairobi. Before his appointment, Mr. Ouko was the Auditor-General at the African

Development Bank (AfDB) where he directed the audit function and was also in charge of the Anti-corruption and Fraud function up to June 2010. Mr. Ouko was with the African Development Bank for over 24 years in various capacities. Mr. Ouko has over 30 years' experience in matters of auditing, accounting

He has championed an assurance framework, involving fiscal accountability; managerial accountability through continuous audit presence and accountability for service delivery.

and investigations.

He is a former member of Audit Committees in a number of UN agencies and the former Chairman of the Audit Committee of Food and Agriculture Organisation (FAO). He also served as an external member of the Audit Committee of United Nations Relief and Works Agency for the Palestinian Refugees.

As the Auditor-General of the Republic of Kenya, Mr. Ouko has realigned the Office to focus on its wider mandate of assuring that public funds have been used lawfully and effectively.

He has championed an assurance framework, involving fiscal accountability; managerial accountability through continuous audit presence and accountability for service delivery. As a result the Office has gained higher public recognition.

Mr. Ouko has a wide range of academic and professional achievements as well as various awards and recognitions to his name. Most recent is Mr. Ouko's election as the Vice-President of the African Organisation of Supreme Audit Institutions (AFROSAI) General Assembly and President of the Technical Committee on Knowledge Sharing and Management during the 13th General Assembly of AFROSAI held in Sharm El Sheik in Egypt in 2015.



Ms. Agnes Mita is the Deputy Auditor-General in charge of Corporate Services Department. She has a Master's of Science in Auditing Management and Consultancy from the University of Central England. She holds a B.Com (Accounting Option) from the University of Nairobi.

Ms. Mita has a wide experience in Public Sector Auditing with a span of more than 31 years in the Public Sector. Among her responsibilities in Corporate Services is overseeing the general operations in Finance, Human Resource, Information Technology, Administration, Public Relations & Communication, Legal Affairs and Procurement divisions.

Ms. AGNES MITA
DEPUTY AUDITOR-GENERAL-CS

Mr. Alex Rugera holds a Bachelor's Degree in Commerce (Accounting Option) from University of Nairobi and is a Certified Public Accountant of Kenya (CPA-K). Mr. Rugera has a vast experience in audit, finance, taxation and consultancy. He has worked as a Senior Audit Manager in Deloitte & Touche, Githongo and Company; and Waithaka Kiarie Mbaya and Company respectively.

He is in charge of auditing The National Treasury, Ministry of Transport and Infrastructure, South Rift and Central Kenya Regional offices. He also oversees consolidation of annual reports for both National and County Governments.



MR. ALEX RUGERA
DEPUTY AUDITOR-GENERAL



MR. DAVID GICHANA
DEPUTY AUDITOR-GENERAL

Mr. David Gichana has a Masters of Business Administration in Finance and a Bachelor of Science (International Business Administration - Accounting Option) degree and is a Certified Public Accountant of Kenya (CPA-K). Mr. Gichana has vast experience of more than 25 years in public sector having worked as Chief Internal Auditor and Accountant before joining the Office of the Auditor-General in 2006.

Mr. Gichana oversees the audit of Social Protection, Culture and Recreation, General Economic and Commercial Affairs, Governance, Justice, Law and Order and Environmental Protection, Water and Natural Resources Sectors. He is also in charge of all the National Government, County Governments and public entities in the Garissa, Embu and Kakamega Regional Office.

Mr. David Njoka holds a Masters of Business Administration (Strategic Management) from the University of Nairobi and a Bachelor's Degree in Business Administration from the United States International University (Africa) –USIU. He is also a Certified Public Accountant of Kenya (CPA-K).

He has more than 28 years' experience in the public sector having served as Chief Accountant

MR. DAVID NJOKA
Ag. DEPUTY AUDITOR-GENERAL



and Senior Accountant in Tana & Athi Rivers Development Authority and Kenya Electricity Generating Company Limited (KenGen) respectively.

He is in charge of audits of Ministries of Energy & Petroleum, Mining, Industry, Trade & Cooperatives as well as Tourism in addition to overseeing audit functions of all publicly funded entities in Kisumu and Kakamega regional Offices.



MR. FREDRICK ODHIAMBO
Ag. DEPUTY AUDITOR-GENERAL

Mr. Fredrick Odhiambo holds an MBA from the Warwick Business School – University of Warwick and a Bachelor’s Degree from Jomo Kenyatta University of Agriculture and Technology. He is a Certified Public Accountant of Kenya (CPA-K), Certified Fraud Examiner (CFE-US), and Certified Financial Services Auditor (CFSA-US).

Mr. Odhiambo has vast experience in audit, advisory and consultancy. He previously served as Director of Audit, Senior Audit Manager in other Supreme Audit Institutions in the British Overseas Territories, Deloitte & Touche LLP, KPMG East Africa before joining the Office of the Auditor-General, Kenya in 2013.

He is in charge of Specialised Audits function which include; Performance Audits, Forensic Audits, Procurement Audits, Information Systems/ Technology (IT) Audits and Public Debt Audits. He also oversees audits of Extractive Industries.

Mr. Sylvester Kiini holds MBA in Strategic Management and a Bachelor’s Degree in Commerce (Accounting Option). He has a vast experience in auditing and has served as Director of Audit in the Office of the Auditor-General before being appointed as Deputy Auditor-General in 2014. Mr. Kiini is also a Certified Public Accountant of Kenya (CPA-K).

He oversees the audit function of Ministries of Education, Science and Technology, Health, Communication and Information Technology, Lands, Housing and Urban Development.

Mr. Kiini is also in charge of audit functions of all public entities under Mombasa and Eldoret regional Offices.



MR. SYLVESTER KIINI
DEPUTY AUDITOR-GENERAL

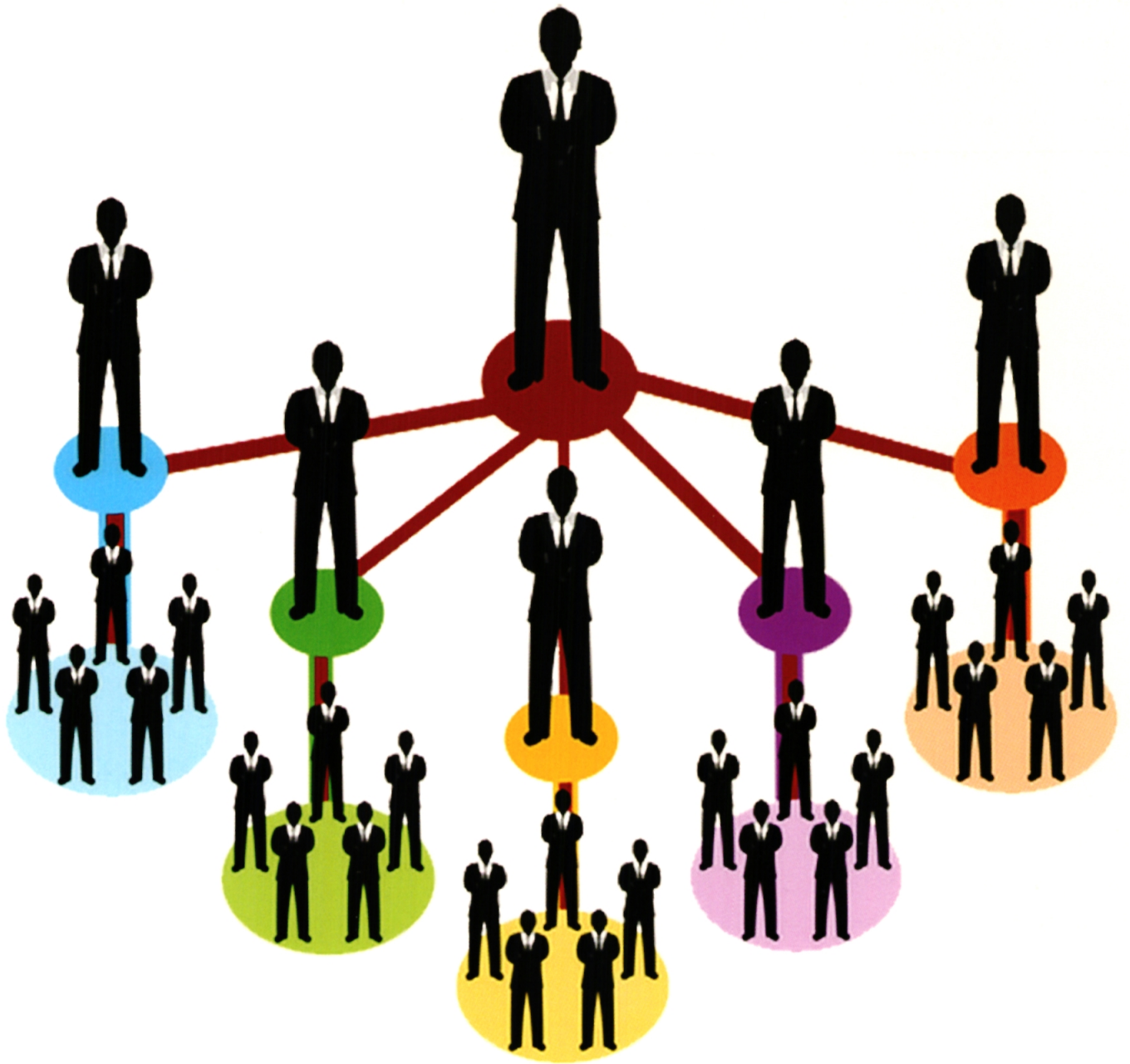
Mr William Agunda holds a Bachelor of Commerce (Accounting Option) degree from the University of Nairobi and is a Certified Public Accountant of Kenya.

He has an extensive experience of more than 30 years in Public Sector Auditing. He has held various positions in the former Office of the Controller & Auditor-General, Kenya National Audit Office and Office of the Auditor General since January, 1987.

He is currently responsible for the audit of Agriculture, Planning, Devolution and National Security Sectors; County Governments of Nairobi, Kajiado, Machakos and Makueni; and all Public Entities in these Counties.



MR. WILLIAM AGUNDA
Ag. DEPUTY AUDITOR-GENERAL



CHAPTER 1: ABOUT US

The Office of the Auditor-General (OAG) is an Independent Office established under Article 229 of the Constitution of Kenya. The Auditor-General is mandated to audit and report in respect to each financial year on the accounts of:

The National and County governments
The National Assembly
The Senate and the County Assemblies
All Courts
Every Commission and Independent Office established by the Constitution
Political parties funded from public funds
The public debt
Any entity that is funded from public funds.

In addition, Article 229(6) of the Constitution requires the Auditor-General to confirm whether

public money has been applied lawfully and in an effective way. This is a broad responsibility that requires the Auditor-General to go beyond accounts certification and compliance to perform work that addresses the economy, efficiency and effectiveness with which public resources have been applied and utilised including their impact on the lives of citizens.



Vision - Effective accountability in the management of public resources and service delivery

Mission - Audit and report to stakeholders on the fairness, effectiveness



and lawfulness in the management of public resources for the benefit of the

Kenyan people



Values

Independence

Integrity

Professionalism

Innovation

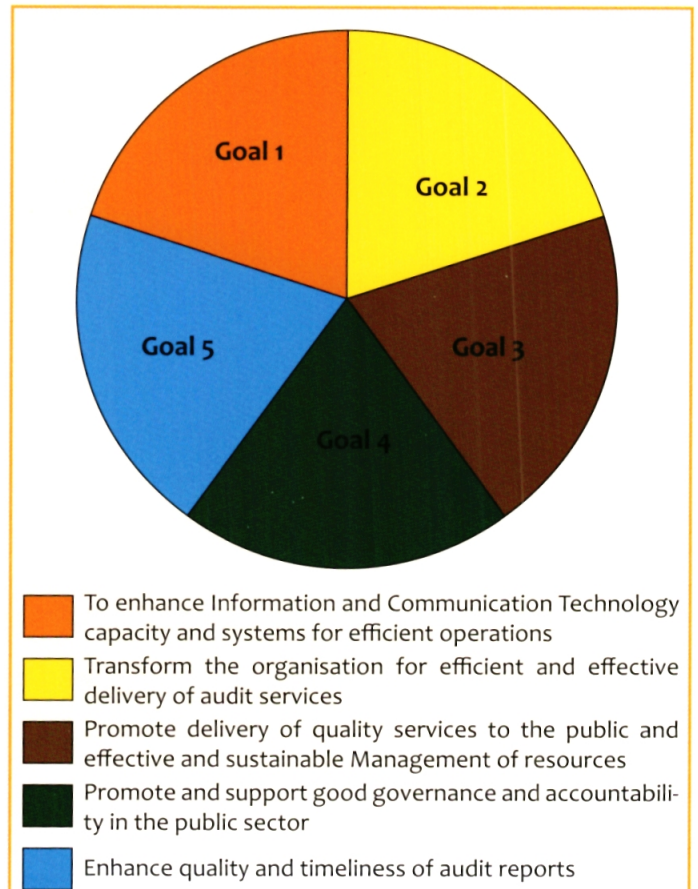
Team Spirit



Motto - Enhancing Accountability

OAG STRATEGIC OBJECTIVES

The Office of the Auditor-General has identified five strategic goals to guide its leadership and operations as it seeks to effectively discharge its mandate. These five goals include the following;



OAG STRUCTURE

The Auditor-General is the Chief Executive of the Office of the Auditor-General.

In the management structure of the organisation, the Auditor-General has seven Deputy Auditors-General

The Auditor-General and the seven Deputy Auditors-General form the Executive Committee that undertakes key decisions on behalf of the organisation.

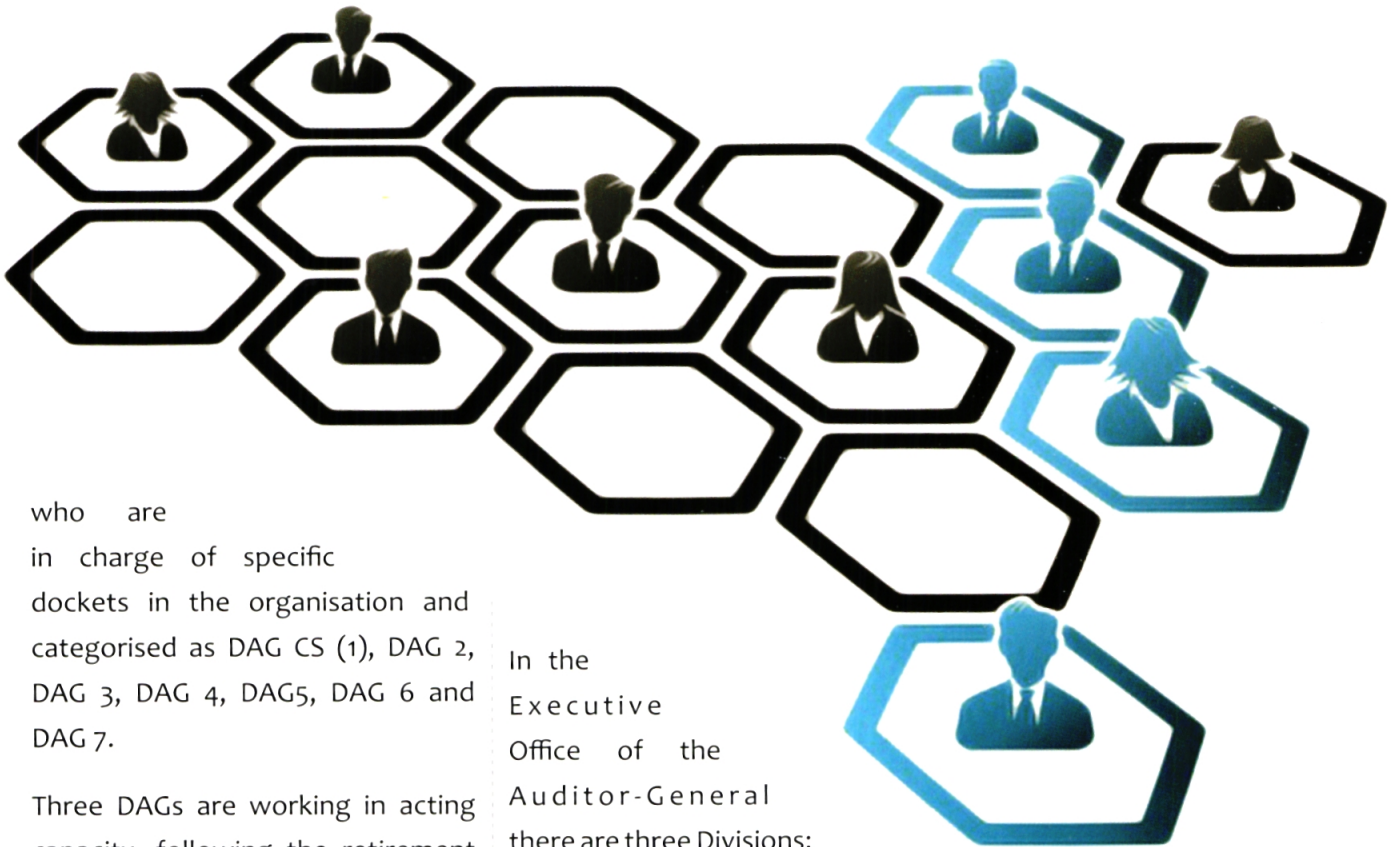
DEPARTMENTS

Executive Office of the Auditor-General

Assemblies Liaison

- Internal Audit
- Strategy and Operations Planning

The other departments headed by the Deputy Auditors-General are illustrated on the next page:



who are in charge of specific dockets in the organisation and categorised as DAG CS (1), DAG 2, DAG 3, DAG 4, DAG5, DAG 6 and DAG 7.

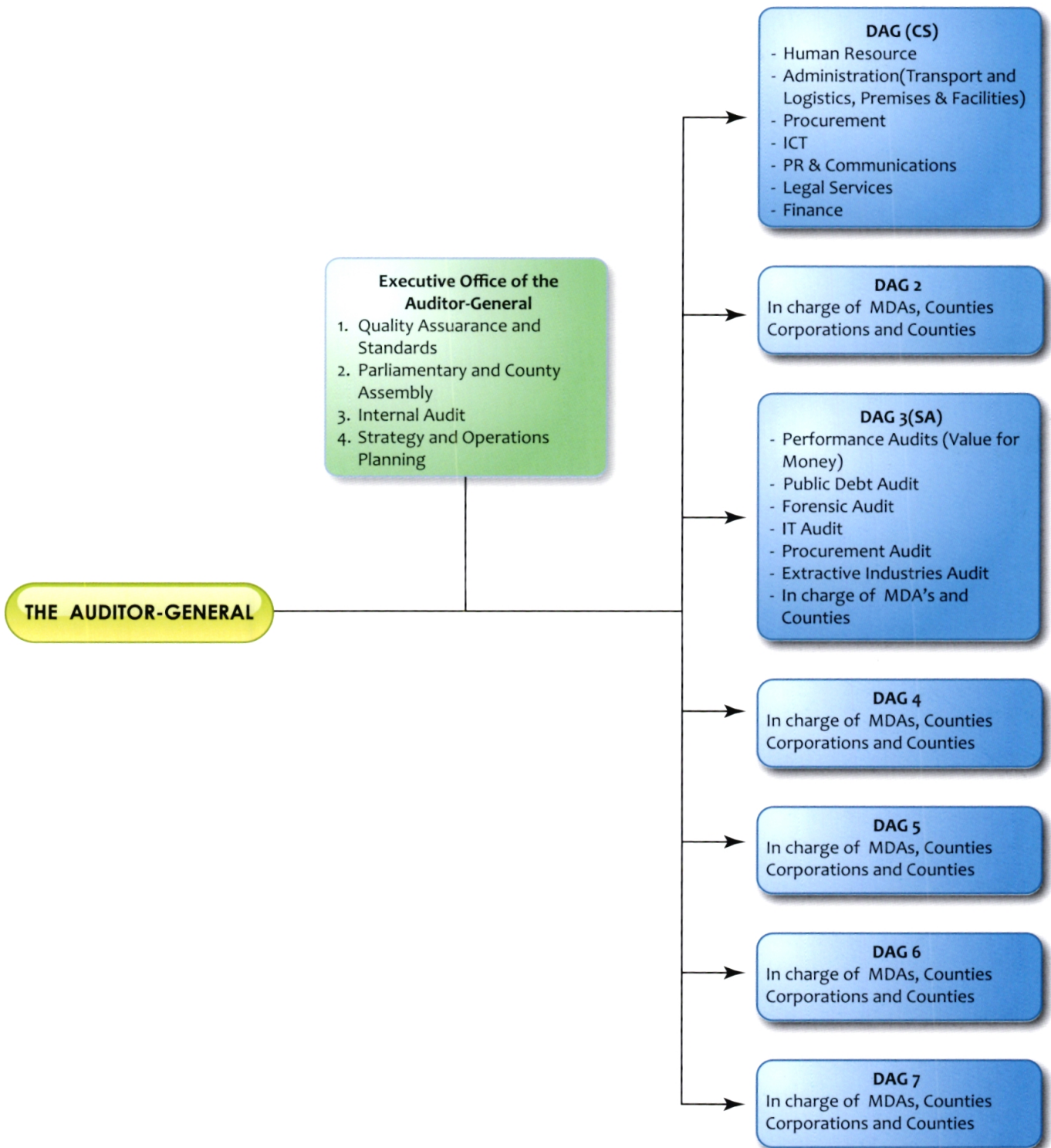
Three DAGs are working in acting capacity, following the retirement of some DAGs.

The numbering does not indicate superiority of one over the other.

In the Executive Office of the Auditor-General there are three Divisions:

- Quality Assurance and Standards
- Parliamentary and County

ORGANOGRAM

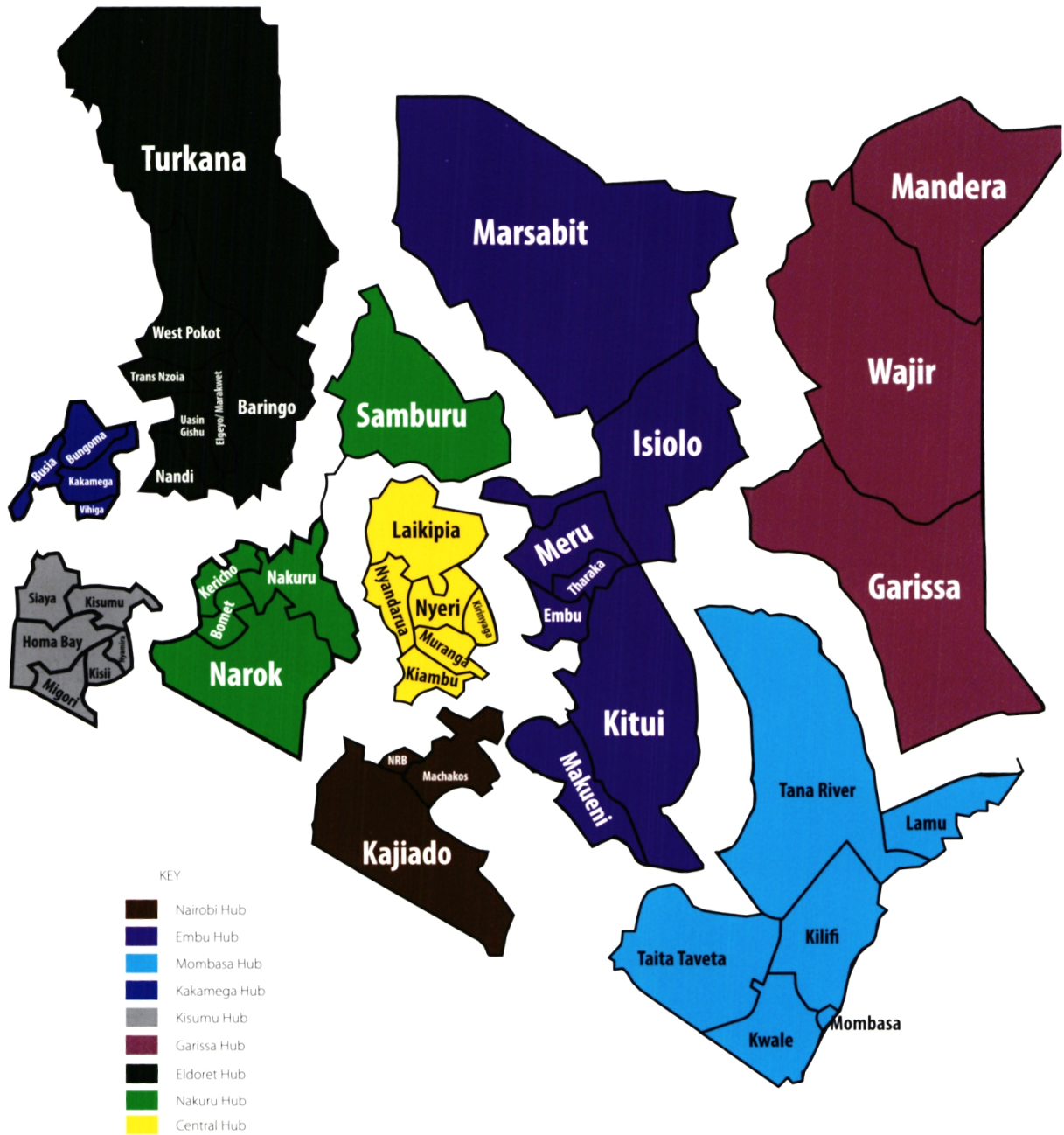


Abbreviations used above:

DAG - Deputy Auditor General
 CS - Corporate Services
 SA - Specialised Audit
 MDA - Ministries, Departments, Agencies

Our presence in the counties

The Office is organised into nine Regional Offices which operate as Hubs in our audit operations at the Counties. These are as follow:



AUDIT STRATEGY AND TYPE

The Office has gone beyond the numbers to carry out work that is value adding in line with changing stakeholder requirements. Our strategy focuses on three approaches to audit.



Certification Audits

Certification Audits are carried out to provide assurance on fiscal accountability. This audit also confirms compliance to laws and standards governing the accounting profession.



Continuous Audits

This refers to auditing on a consistent and continuous basis to provide assurance on managerial accountability. It involves the evaluation of management controls and the operationalisation of board policies.



Performance Audits

They are conducted to examine the economy, efficiency, effectiveness and equity with which National and County entities provide services to the citizens. Performance audit involves an in-depth analysis of specific issues relating to the audited entity's processes or functions. It includes assessment of how resources are utilised in relation to: economy, efficiency, effectiveness and equity.

OTHER TYPES OF AUDIT



Environmental Audits

Refer to audit dedicated to programmes, activities, systems and laws which have an impact on the environment. It involves an assessment of compliance with environmental laws, regulations, conventions and issues to do with sustainability (managing the environment well for the present and future generations). The aim is to determine whether the audited entities take environmental issues into consideration when performing their duties.



IT Audits

These are audits carried out to give assurance on the integrity of the IT systems and the information produced therein. IT audit involves the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data

integrity, allows organisational goals to be achieved effectively and uses resources efficiently.



Forensic Audits

Forensic Audits are conducted with the objective of detecting fraud, corruption or other financial improprieties. Such audits entail a detailed scientific examination of records with a view of establishing facts of the matter, with the court process in mind. The evidence gathered must be sufficient to pass the rigorous court process. They assist the courts to arrive at a fair judgment. It is important to note that not all forensic findings end up in court.

IT audit involves the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organisational goals to be achieved effectively and uses resources efficiently



MEETING STAKEHOLDERS NEEDS

The Office has a number of stakeholders interested in the promotion of accountability in the public sector. We have identified a number of these stakeholders and have made efforts to meet their expectations.

Citizens

The citizens have entrusted the Office with the work of looking over their resources. They are thus interested in knowing how public resources have been spent, and this comes with the need to simplify audit reports for easier understanding. In this regard, the Office continually publishes a summarised version of the annual audit reports, for easier read.

Additionally, the media is a key link to the citizens and the office has an ongoing programme of training journalists on the audit process, with the aim of enhancing their capacity in understanding audit findings. This translates to simpler reporting of Audit findings, which can be easily understood by the citizens.

Media

We have come up with a strategy on media relations that outlines our engagement with the media. The needs of the media range from availability of audit reports to simplification of the same. On the other hand we expect the media to ensure accurate and fair reporting and to carry out advocacy on topical issues regarding the work of the Office.

To strike the balance and ensure that we meet the media expectations as they take into account ours as well, we organise media awareness workshops aimed at sharpening the skills and enhancing understanding of journalists on audit matters. As a result 71 journalists have been trained during the year under review.

The Office, with the help of German Development Cooperation (GIZ), has also developed a Media Handbook of Reporting Audit Findings, to aid journalists in accurate and factual reporting. The Office also avails its reports on the website, for easy access, in line with the relevant laws.

Parliament

Parliament expects the Office to provide it with timely and objective reports as well as special audits, on request. It also expects the Office to provide guidance during interrogation of audit reports at the hearing sessions.

To address these, the Office has established a Parliamentary and County Assembly Liaison team that prepares briefs on audit findings for Members of Parliament to guide them during hearing sessions.

During the year under review, the liaison team gave support in 250 sittings of the Parliamentary Accounts Committee and 94 sittings

During the year under review, the liaison team gave support in 250 sittings of the Parliamentary Accounts Committee and 94 sittings for Public Investment Committee

for Public Investment Committee

The Office also strives to provide timely reports and expects Parliament to deliberate on them and ensure that their recommendations are enforced by the audited entities.

The Presidency

We continue to meet the Presidency's needs by giving updates on our performance, through the Annual Corporate Report. The Office also takes up audit of special projects as may be requested by the Presidency.

Audited entities

These are some of the institutionalised stakeholders that the Office engages with. They are institutionalised in the sense that there is some legal framework that outlines our engagement. In meeting their expectations, the Office ensures back and forth communications from the start of the audit all the way to the

compilation of the final audit report.

Our staff also ensure confidentiality and professional conduct as they engage the entities during the audit process. Conversely, we expect the entities to provide us with financial statements within the statutory prescribed period, for timely audits.

OAG Staff

Though they largely have common needs, their expectations vary based on a number of attributes. The Office endeavours to meet these expectations. We therefore ensure our staff welfare is catered for as well as their professional development, to ensure they are comfortable to help the Office undertake its mandate effectively.

Donors/Cooperating partners

These partners are largely focused on compliance with standards for uniform reporting as well as capacity-building of staff for effective audits. The Office always ensure these needs are met through sustained training and capacity-building Workshops.

The Office also meets membership obligations through regular payments to professional organisations that we subscribe to, for professionalisation of the audit function.

CHAPTER 2: AUDIT ACTIVITIES

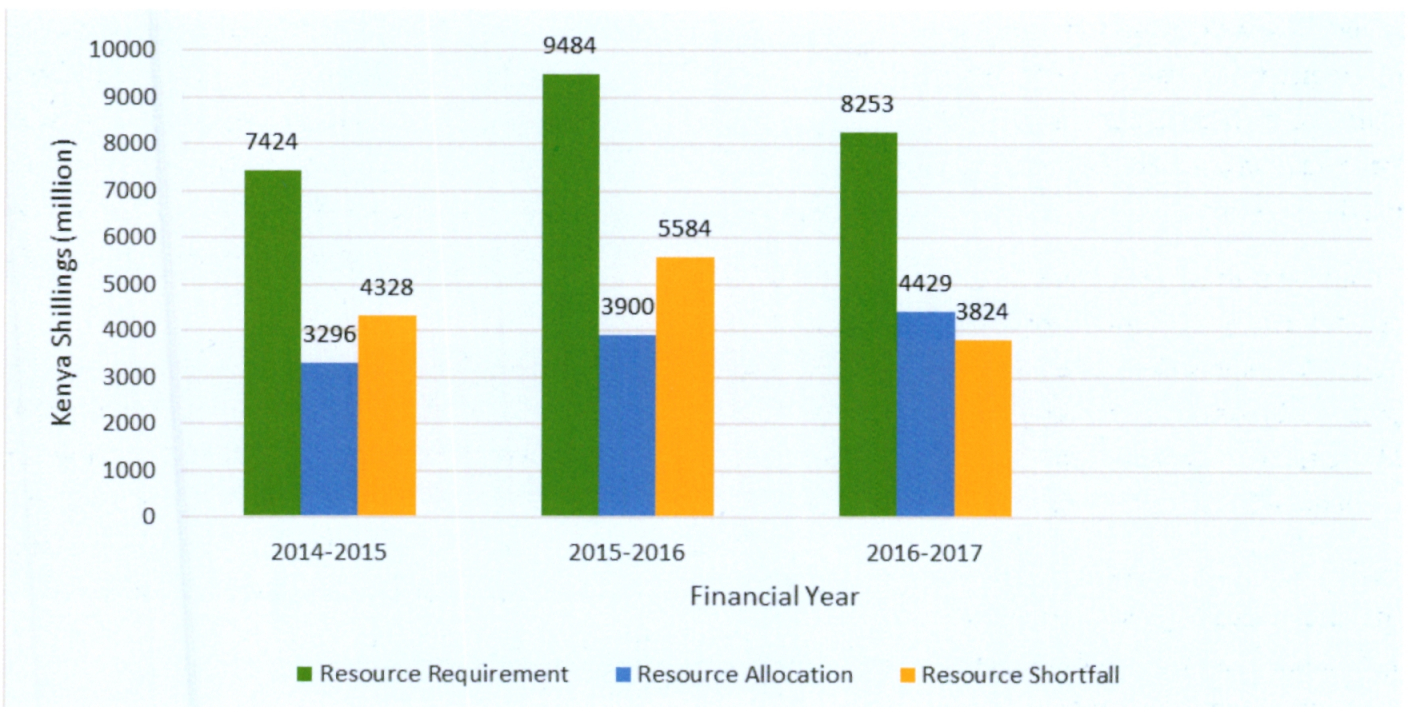
BUDGETARY ALLOCATION

The products of the Auditor-General's work are audit reports which are submitted to Parliament or the relevant County Assemblies within three months after the

end of the financial year. In the execution of its mandate, the Office has however, experienced financial challenges, thus affecting timely completion of audit reports.

The table below summarises the Office's budgetary requirement against the allocated resources:

Budgetary Allocation									
Budget	2014-15			2015-16			2016-17		
	Require ment Kshs.m	Allocation Kshs.m	Shortfall Kshs.m	Require ment Kshs.m	Allocation Kshs.m	Shortfall Kshs.m	Require ment Kshs.m	Allocation Kshs.m	Shortfall Kshs.m
Recurrent	5,424	2,891	2,533	5,984	3,785	2,239	6,143	4,253	1,890
Development	2000	405	1595	3,500	155	3,345	2,110	176	1,934
Total	7,424	3,296	4,128	9,484	3,900	5,584	8,253	4,429	3,824



The financial challenges, notwithstanding the Office continues to effectively use the available resources to fulfill its mandate.

AUDIT STANDARDS

OAG adheres to International Standards of Supreme Audit Institutions (ISSAIs) and International Organisation of Supreme Audit Institutions Governance (INTOSAI GOV) framework regarding audit planning, quality control, auditor's response to risk assessment and entity risk management.

Our Quality Assurance team offers technical support to the audit function to ensure Audit standards are adhered to. This support is in terms of training staff on new audit methodologies, developing auditing manuals and ensuring that audit reports are of the required quality and meet the appropriate audit standards such as the ISSAIs.

AUDIT ACTIVITIES

Article 229(4) of the Constitution of Kenya outlines the various accounts which the Auditor-General is expected to audit and report on. Furthermore, Article 229(6) stipulates that the Auditor-General

should confirm whether public money has been applied lawfully and in effective manner. This means that apart from certification audits, the Auditor-General should also focus on performance audits.

CERTIFICATION AUDITS

The main constitutional mandate of the Auditor-General is to certify accounts of public entities. These funds include public debt, recurrent expenditure, development expenditure and consolidated funds. The tables below show certification audits for 2015/16 and 2016/17:

Table 1: Certification audits for 2015/2016 FY

ENTITY	FINANCIAL YEAR	NO. OF STATEMENTS
CDF	2015/2016	290
Central Government	2015/2016	110
County Government	2015/2016	47
County Assembly Financial Statements	2015/2016	47
County Funds (Car loans, Mortgages, etc.)	2015/2016	35
State Corporations	2015/2016	251
Donor Funded Projects	2015/2016	160

Table 2: Certification audits for 2016/2017 FY

ENTITY	FINANCIAL YEAR	NO. OF STATEMENTS
CDF	2016/2017	290
Central Government	2016/2017	109
County Government	2016/2017	47
County Assemblies	2016/2017	47
County Funds (Car loans, Mortgages, etc.)	2016/2017	55
State Corporations	2016/2017	246
Donor Funded Projects	2016/2017	164
Water Companies and Boards	2016/2017	83
Political Parties	2016/2017	5

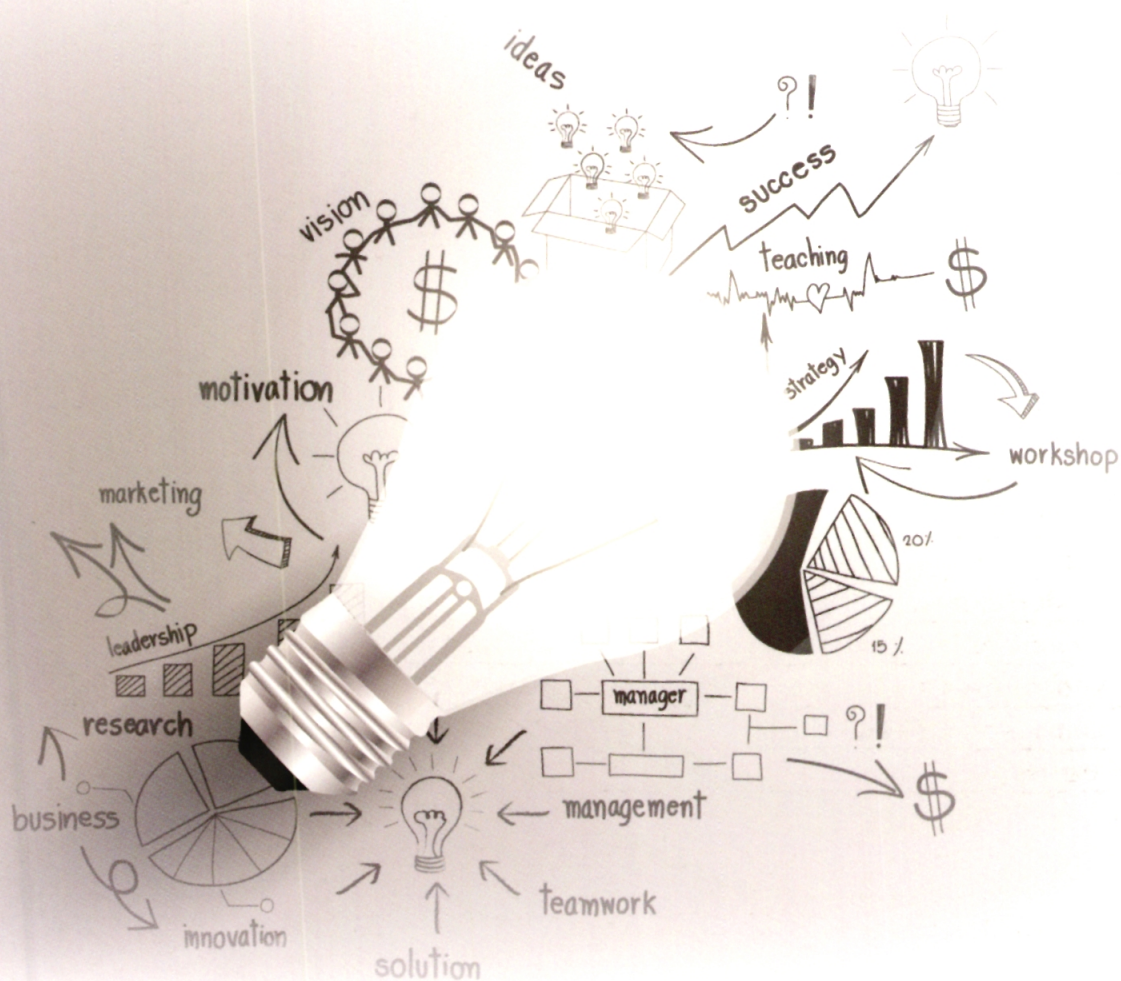
Apart from financial audits, the Office also conduct specialised audits, which focus on lawful and effective use of public resources, and the detection of fraud. They include performance audits that address value for money concerns, environmental audits, IT audits, special audit and forensic audit.

In the period under review, a number of special audits were carried out, due to requests from parent ministries, Parliament and at some instances by the Office, especially on topical matters of public concern.

Number of Special Audits carried out in 2016/2017

During the year the Office published 10 Special Audits as indicated below:

- ✘ Management of Cash Transfer to Orphans and Vulnerable Children;
- ✘ Provision of Sewerage Service in Major Towns - Athi Water Service Board- A case of Nairobi City;
- ✘ Provision of Sewerage Service in Major Towns -Lake Victoria South Water Service Board- A case of Kisumu City;
- ✘ Protection, safety & Health of Workers at the Work Place -
- Min. of East Africa Corporation, Lab. & Social Protection;
- ✘ Provision of Financial & Business Support Services by Women Enterprise Fund (WEF);
- ✘ Wildlife Security- Kenya Wildlife Services;
- ✘ Provision of Mental Healthcare Services in Kenya Ministry of Health and County Governments;
- ✘ National School Upgrading Programme - Ministry of Education and Technology;
- ✘ Provision of Housing for Prison Officers in Kenya- Department of Prison Services





CHAPTER 3: CORPORATE PROFESSIONAL SERVICES

The Corporate Professional Services provide an anchor for Audit staff to carry out their work. These services are domiciled in various divisions and subdivisions such as Human Resources, Administration (Transport & Logistics, Premises & Facilities), Procurement, Information Communication Technology (ICT), Legal Affairs and Public Relations & Communications.

MANAGING HUMAN CAPITAL

This covers career development of staff as well as managing their welfare.

The office undertakes various training and staff development programmes to ensure employees are equipped with the necessary competencies and skills in their various capacities and deployments.

In this regard, 1,130 employees were exposed to various career development programmes in Budget as a Control Tool in Audit, use of TeamMate Software in audit, Procurement Audits, Report Writing, amongst others.



1,130 Staff
exposed to career development trainings

Recruitment

People represent the most flexible resource available to an organisation. Currently the Office

has a total of 1,278 employees, as at June 2017, who are deployed equitably in all the sectors.



1,278
employees, as at
June 2017

Deploying people in the right numbers, with the right skills and attitude in the right place is fundamental to organisational success.

In this regard, the Office has collapsed the silos in the organisation and replaced them with an organisation structure that will expose all staff in equal measure to all auditable entities prescribed in the Constitution. Further, the Office has undertaken a staff rationalisation exercise to ensure equity in staff distribution and to facilitate the pursuit of the organisation's objectives.

Status of staff at OAG: 2016/17

Staff	Total
Number of staff recruited	43
Number of staff who resigned	3
Number of staff who retired	22
Number of staff who have passed away	4

Salaries and Allowances

In order to enhance employee engagement, the Office has introduced non-practising allowance for accountants who are registered with ICPAK and are in possession of valid practicing licenses. In addition to this, the office pays hardship allowance to staff in hardship areas and extra duty allowance for staff. Also in consultation with Salaries and Remuneration Commission (SRC) the staff salaries were improved to cushion them against inflation.

Job Evaluation

Following a comprehensive job evaluation undertaken in 2015, the Office has streamlined job grading and pay structure. This was considered during the evaluation carried out by Salaries and Remunerations Commission, which consequently approved the new grading system and pay structure, for implementation.



34 Staff
members benefited
from Mortgage



122 Staff
members benefited
from Car Loans

MANAGING FINANCES

Amid financial challenges, the Office has ensured that the scarce financial resources are efficiently utilised by ensuring strict adherence to internal controls, processes and procedures as well as the Public Finance Management Act (PFM Act), Public Procurement and Asset Disposal Act 2015, and ensuring that other relevant regulations and procedures are duly followed.

The new constitutional dispensation with two levels of government and the expanded mandate of the Office of the Auditor-General has meant that the Auditor-General has to audit the National Government and 47 County Governments. The financial resources required to enable us undertake effective audits and meet the constitutional deadline are huge.

The Office also desires to establish Offices at the Counties in-order to execute efficient audits and enhance independence. A huge development budget is required to execute these capital projects. The office, however, has received about 50% of its requirement over the years thus hindering its ability for timely execution of its mandate.

SUPPLY CHAIN MANAGEMENT

Following the recruitment of procurement professionals, the Office has registered marked improvements in promoting good governance and accountability within the internal systems.

OAG has complied with the laws, rules and regulations governing

public procurement in Kenya, and appointed members to various committees involved in the procurement process, as required by the law.

Under resource mobilisation, the Procurement section has enhanced efficiency and accountability by undertaking periodic market surveys to ensure that there's up-to-date market intelligence to guide the Tender and Procurement Committees in making their decisions. This is to ensure that there is value for money and that goods are acquired at comparable market rates.

TRANSPORT FACILITATION



The Transport Section of OAG provides support services in terms of staff transport and logistics coordination. The Office has a fleet of 102 vehicles, out of which 93 are operational while the rest are grounded for boarding.

During the year, the Office diversified its fleet composition through acquisition of eight new and more robust ten-seater Toyota Landcruisers. This model is of great use as it cuts down on operation

costs owing to its capacity and can equally navigate the torturous terrains, especially in the remote areas.

The Office also received 6 new Nissan Patrols model Y61 which are more robust and lighter in weight with an improved fuel usage, cutting down on fuel expenditure.

With the acquisition of the new fleet, most of the challenges in fleet availability particularly in the regional offices have been effectively managed. The office has been able to achieve on average fleet availability of 89 per cent and 77 per cent for the regional offices and the Headquarters, respectively.

The drivers are continually exposed to Road Safety and Etiquette Skills training for effective provision of services and ensuring safety of staff and other road users.

The Office also entered into Framework Agreements with all the major motor vehicle dealers in Kenya. This approach is meant to achieve low turn-around time in the servicing and maintenance of the fleet. The key focus is to have a well-serviced and maintained fleet to enable delivery of efficient Audit services.

FACILITIES & PREMISES MANAGEMENT

The Office has made a milestone by constructing an Office Block in Garissa.

The two-story building accommodates staff working in the North Eastern region covering the counties of Garissa, Mandera and

Wajir.

Plans are also underway to construct Office Blocks in Eldoret and Kakamega, for the North Rift and Western regions' counties. Land has been identified for the construction of these buildings.



The Office has also acquired rent-free accommodation for a number of regional offices, resulting in a reduction of our rental budget.

RISK MANAGEMENT

The Internal Audit function of the office is charged with the responsibility of advising on risk management. Consequently, Internal Auditing is now conducted in accordance with the provisions of the Public Finance Management Act 2012, the Public Finance Management Act Regulations 2015, the guidelines issued by the Public Sector Accounting Standards Board, and the international best practices contained in the Professional Practices Framework as issued by the Institute of Internal Auditors.

The Auditor-General has also ensured that the internal auditors are independent of programmes, operations and activities they audit to ensure the impartiality and credibility of the internal audit work undertaken.

The key achievements of the internal audit function during the year are as follows:

- ⚡ Reviewed and evaluated the budgetary performance, financial management, transparency and accountability mechanisms and processes;
- ⚡ Provided a reasonable assurance on the state of risk management, control and governance;
- ⚡ Reviewed the effectiveness of the financial and non-financial performance management systems;
- ⚡ Reviewed the governance, transparency and accountability mechanisms with regard to the finances and assets;
- ⚡ Conducted risk-based, value for money and systems audits aimed at strengthening internal mechanisms that could have an impact on the achievements of the strategic objectives;
- ⚡ Verified the existence of assets administered by the entity and ensured that there are proper safeguards for their protection;
- ⚡ Provided assurance that appropriate institutional policies and procedures and good business practices are followed;
- ⚡ Evaluated the adequacy and reliability of information available to management for making decisions with regard to the entity and its operations.

LEVERAGING ON TECHNOLOGY

In the financial year 2016-2017, the Office implemented the following projects, which were a continuation of the ICT modernisation programme which aims at enhancing efficiency in OAG operations and services.

Headquarters Network Upgrade (Internet Protocol [IP] Telephony)

During the year, the Office started the process of upgrading our core network. As stated in the previous years report, most of our equipment had reached end of life and had become expensive to maintain. Due to unavailability of funds to enable us upgrade the whole network, we decided to upgrade the network in phases.

During this phase 1, we were able to implement the IP telephony in our headquarters and selected Nairobi branches. The implementation has enabled us introduce advanced set of collaboration services to extend mobility to auditors and other users through the upgrade of the following services:

- ☎ Voice communications
- ☎ Instant messaging and presence
- ☎ High definition video and content sharing
- ☎ Rich media conferencing
- ☎ Business-to-business voice and video communications
- ☎ Unified voice messaging
- ☎ Cisco Jabber for internet clients and mobile internet users.

Microsoft Enterprise Agreement and Support

During the year we also signed an enterprise agreement and support contract with Microsoft. This was to allow us have solutions to various ICT challenges that we face and to allow us maintain an efficient, dependable and have easy to use tools to support our Microsoft Environment. The signing also allowed us to upgrade our Email facilities to Office 365 and other Microsoft products that we currently have.

Challenges

However, even with the implementation of all of the above and as stated in the last financial year's report, we still face the following challenges that are impacting on the smooth operations of the ICT environment.

- ☛ We lack our own Disaster recovery site
- ☛ We also lack ICT monitoring tools which is a key component in implementing ICT systems.
- ☛ We are still operating an old WAN/LAN network which is most of its active equipment have reached its end of life which is over 8 years old.
- ☛ We lack an up-to-date Cyber security system to protect our core network
- ☛ Have limited Training for our staff on new technologies and systems.

PROVISION OF LEGAL SERVICES

The Office seeks to implement

various legislations and policy frameworks to enable OAG deliver its mandate.

OAG ensures statutory accountability through compliance with applicable statutes & regulations and other relevant standards of best practice.

The Office of the Auditor-General seeks to eliminate potential legal risks by identifying present and possible legal problems through introspection or review of the Office operations.

MANAGING REPUTATION AND RELATIONSHIPS

The Office has made progress in enhancing its relationship with both internal and external stakeholders. This has led to a more solid reputation for the organisation on its effectiveness in executing its mandate.

More interactive and creative ways of disseminating information on the Office's operations to staff have been employed, to rally staff behind the Office's mission.

In promoting impact of audit reports to the citizens, the Office continues to build the capacity of journalists for better understanding and accurate reporting of audit findings.

After initial three media awareness workshops, the Office-with the support of GIZ- developed a media Handbook to make it easy for journalists to quickly understand the contents of audit reports whenever they interact with these reports, in the course of their duty.

The Media Handbook also

provides tips and information on best practices on reporting Audit findings, for impact.



During this period 71 journalists were trained on audit process and exposed to audit jargons for better understanding of audit finding to the benefit of the citizens, by extension.

The Office also continues to publish an internal Magazine, "OAG Perspectives" and "Supreme Auditor", targeting external stakeholders. These, together with improved presence of the Office on social media platforms (<https://www.facebook.com/Office-of-the-Auditor-General-Kenya-700110813347961/> and https://twitter.com/OAG_Kenya), are avenues through which the Office endeavours to address stakeholders' needs.

The Office faces budgetary challenges in carrying out effective outreach and capacity building programmes for citizens and other organised groups to effectively interrogate Audit Reports and demand accountability from those charged with governance.

CHAPTER 4: GLOBAL CONTRIBUTIONS

The Office continues to give technical support to other Supreme Audit Institutions (SAIs) in various forums, through the support of International Organisation of Supreme Audit Institutions (INTOSAI)¹ and African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E)², to which the Office is a member.

LEADERSHIP AT AFROSAI

The Auditor-General has been honoured to serve as the President of AFROSAI's Technical Committee

of Knowledge Sharing and Management, and as Vice-President of Office of AFROSAI General Assembly. He continues to serve in these positions with passion, professionalism and commitment.

RESOURCE PERSONS

The Office continues to provide support to other SAIs, as part of the contribution to the membership of INTOSAI and AFROSAI-E. The capacity-building support are mainly in the subject areas of Leadership and management, Auditing,

Communications and Stakeholder Engagement and Human Resource.

In our contributions to INTOSAI, AFROSAI and in our daily operations we also work closely with various development partners with interest in Public Finance Management and use of public resources. These include The World Bank, GIZ, Swedish International Development Agency, and Danish International Development Agency, amongst others.



- 1) This is the International Organisation of Supreme Audit Institutions, which is a body comprising all Auditors-General in the World. Membership to this body ensures that OAG Kenya gains from this institution in terms of capacity building, and the sharing of best practices among the peers.
- 2) This is the African Organisation of Supreme Audit Institutions for English-speaking countries comprising twenty six members. OAG Kenya participates in workshops and conferences organised by this organisation. These include training on audit standards, management development programmes, human resource matters, management and communications.

CHAPTER 5 FINANCIAL STATEMENTS

Article 226 (4) of the Constitution of Kenya provides for the accounts of Office of the Auditor-General to be audited and reported on by a professionally qualified accountant appointed by the National Assembly.

The National Assembly is yet to appoint an auditor, but attached is the unaudited financial statement for the Office for 2016/17.



OFFICE OF THE AUDITOR GENERAL

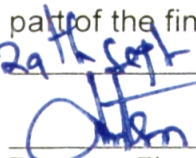
Reports and Financial Statements

For the year ended June 30, 2017

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2016-2017	2015-2016
		Kshs	Kshs
RECEIPTS			
Transfers from National Treasury	1	4,170,600,000	3,627,900,000
Other Revenues	2	203,784,340	193,389,492
TOTAL REVENUES		4,374,384,340	3,821,289,492
PAYMENTS			
Compensation of Employees	12	2,522,698,802	2,119,573,392
Use of goods and services	13	1,235,041,256	1,204,719,078
Other grants and transfers	16	1,088,073	1,080,675
Social Security Benefits	17	9,170,600	4,091,699
Acquisition of Assets	18	578,530,715	427,306,448
Finance Costs, including Loan Interest	19	-	-
Repayment of principal on Domestic and Foreign borrowing	20	-	-
Other Expenses	21	-	-
TOTAL PAYMENTS		4,346,529,446	3,756,771,292
SURPLUS/DEFICIT		27,854,894	64,518,200

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 29th Sept 2017 and signed by:



Director- Finance
Charles Mwitari
ICPAK M.No.4582



Deputy Auditor General Corporate Support
Agnes Mita

OFFICE OF THE AUDITOR GENERAL

Reports and Financial Statements


For the year ended June 30, 2017


STATEMENT OF ASSETS AND LIABILITIES

	Note	2016-2017	2015-2016
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	22A	108,326,240	231,822,099
Cash Balances	22B	4,973,716	1,075,245
Total Cash And Cash Equivalents		113,299,956	232,897,344
Accounts Receivables - Outstanding Imprest and Clearance Accounts	23	15,506,084	8,902,089
TOTAL FINANCIAL ASSETS		128,806,040	241,799,433
LESS: FINANCIAL LIABILITIES			
Accounts Payables - Deposits	24	107,767,813	113,185,100
NET FINANCIAL ASSETS		21,038,227	128,614,333
REPRESENTED BY			
Fund balance b/fwd	25	128,614,332	64,096,133
Prior year adjustments	26	(135,430,949)	-
Surplus/Deficit for the year		27,854,894	64,518,200
NET FINANCIAL POSSITION		21,038,227	128,614,333

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on

29th September 2017 and signed by:


 Director- Finance
 Charles Mwitari
 ICPAK M.No.4582


 Deputy Auditor General Corporate
 Support - Agnes Mita

OFFICE OF THE AUDITOR GENERAL
Reports and Financial Statements
For the year ended June 30, 2017
VI. STATEMENT OF CASH FLOWS

	Note	2016-2017	2015-2016
CASH FLOW FROM OPERATING ACTIVITIES		Kshs	Kshs
Receipts for operating income			
Transfers from National Treasury	4	4,170,600,000	3,627,900,000
Other Revenues	11	203,784,340	193,389,492
		4,374,384,340	3,821,289,492
Payments for operating expenses			
Compensation of Employees	12	2,522,698,802	2,119,573,392
Use of goods and services	13	1,235,041,256	1,204,719,078
Other grants and transfers	16	1,088,073	1,080,675
Social Security Benefits	17	9,170,600	4,091,699
		3,767,998,731	3,329,464,844
Adjusted for:			
Changes in receivables		- 6,603,995	7,388,892
Changes in payables		- 5,417,287	113,185,100
Adjustments during the year	26	- 135,430,999	-
Net cashflow from operating activities		458,933,328	597,620,856
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets	8	-	-
Acquisition of Assets	18	(578,530,715)	(427,306,448)
Net cash flows from Investing Activities		(578,530,715)	(427,306,448)
CASHFLOW FROM BORROWING ACTIVITIES			
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT			
		- 119,597,387	170,314,408
Cash and cash equivalent at BEGINNING of the year		232,897,344	62,582,936
Cash and cash equivalent at END of the year		113,299,957	232,897,344

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OFFICE OF THE AUDITOR GENERAL
Reports and Financial Statements
For the year ended June 30, 2017

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Director- Finance
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OFFICE OF THE AUDITOR GENERAL

Reports and Financial Statements

For the year ended June 30, 2017

II. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Budget execution - Recurrent & Development Combined - FY 2016/17

Code	Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
		a	b	c=a+b	d	e=c-d	f=d/c %
	Receipts						
	Exchequer releases	4,256,880,000	0	4,256,880,000	4,170,612,529	256,496,501	94%
	Other Receipts	150,000,000	70,000,000	220,000,000	203,784,340	16,215,660	93%
	Total Receipts	4,406,880,000	70,000,000	4,476,880,000	4,374,396,869	272,712,161	94%
	Payments						
21	Compensation of Employees	2,545,320,000	0	2,545,320,000	2,522,698,802	22,621,198	99%
22	Use of goods and services	1,076,033,200	0	1,076,033,200	1,268,760,046	50,306,916	95%
263	Transfers to Other Government Units	180,777,800	0	180,777,800	180,777,800	0	100%
261/2/4	Other grants and transfers	1,500,000	0	1,500,000	1,088,073	411,927	73%
27	Social Security Benefits	9,170,600	0	9,170,600	9,170,600	0	100%
31	Acquisition of Assets	396,078,400	0	396,078,400	364,046,654	37,825,484	90%
	Grand Total	4,208,880,000	0	4,208,880,000	4,346,541,975	111,165,525	97%
	Surplus/Deficit	198,000,000	70,000,000	268,000,000	27,854,894	161,546,636	

OFFICE OF THE AUDITOR GENERAL
Reports and Financial Statements
For the year ended June 30, 2017



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