Institute of Economic Affairs

BRIEF ON AUDITOR GENERAL'S REPORT 2015

Introduction

Kenyans know that the budget is an important policy tool for the government and the manner in which it is spent and accounted for a good pointer to both the quality and quantity of services that government can provide. Public expenditure in Kenya is governed by the constitutional provisions and supported by subordinate statutes and regulations. Article 229 (1) of the constitution of Kenya not only establishes the office of the Auditor General while article 229 (4) states the duties of the office and the scope of public bodies that are subject to an audit. This is important because it situates the work of the Office of the Auditor general within the constitution, confirming that performance of the role is a constitutional requirement.

Thus in providing the audit reports for the financial year that ended in June 30 2014, the Auditor general was performing a duty that is not at his or parliament's discretion. Similarly, the office of the Auditor general is allowed by article 229 (5) to report on the accounts of any entity that is funded from public funds. Thus allowing the Kenyan citizen and the media access to the audit report is also an expectation provided by the constitution.

The full report of the audit and its summary are available link and we provide a summary and analysis of its content to inform public view and highlight existing weaknesses and strengths of Kenya's public Finance management system.

Chart 1: Gross Estimated Expenditure Kshs (Billions)

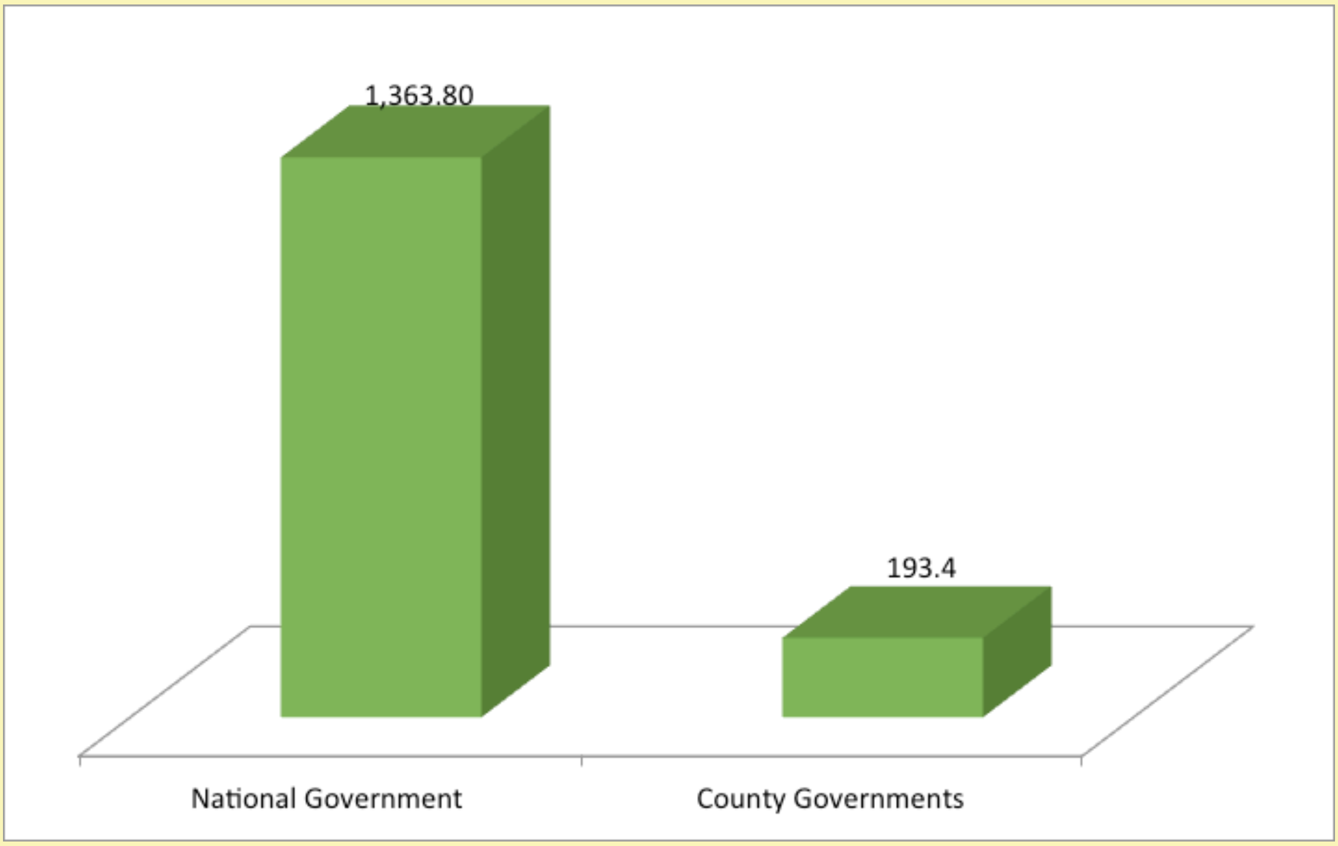
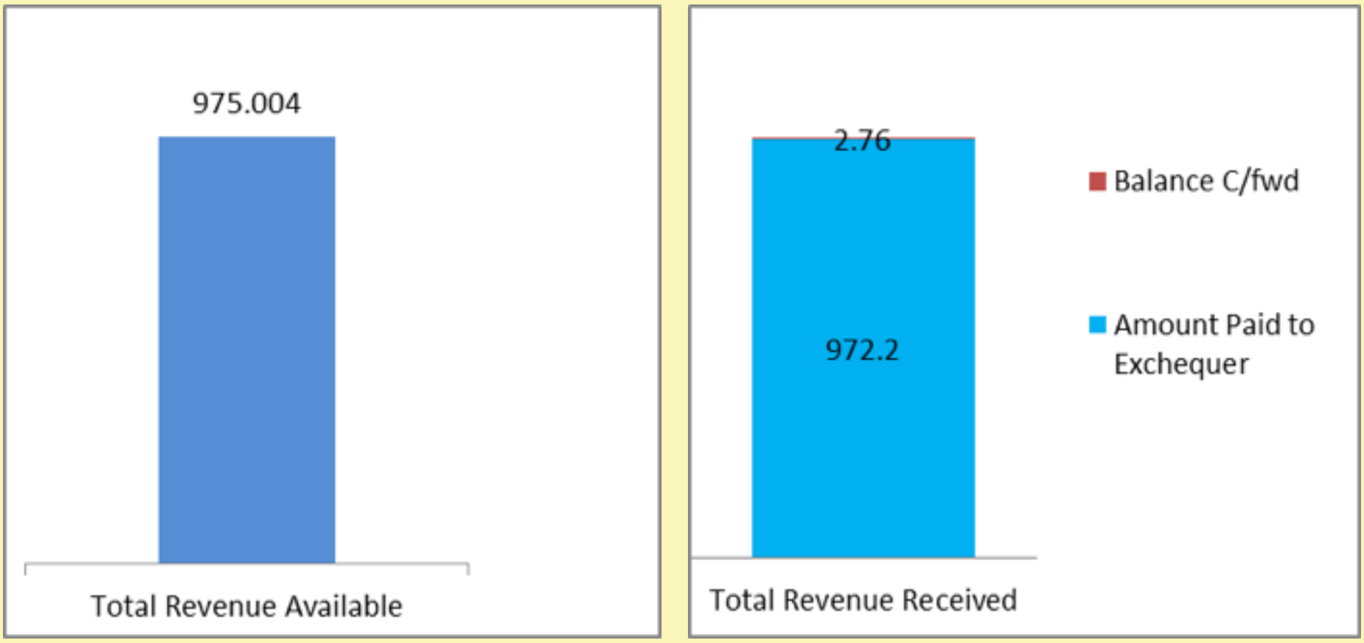


Chart 1 on page one shows the gross budget between the National Government and the County Governments. It is important to note that, this is the first budget allocated under the devolved government structure. The National Government spends seven times as much as the County Governments. As a percentage of the gross domestic expenditure, the National Government takes up 87.5% whereas the County Government takes up only 12.5%.

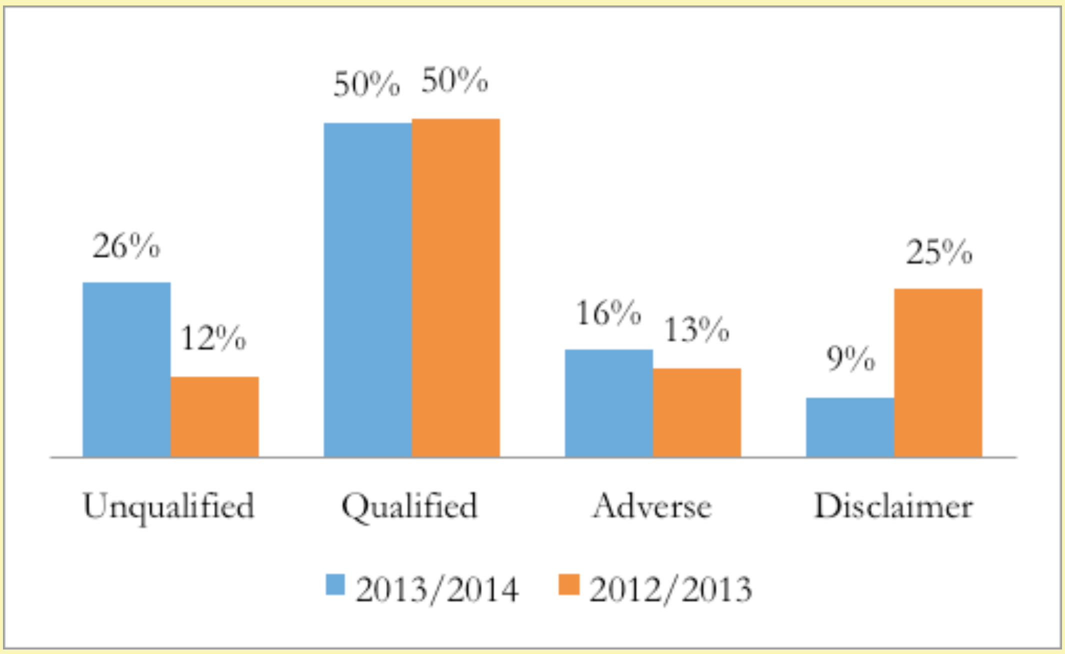
Chart 2: Revenue not remitted to the Exchequer (Kshs Billions)



Source: Summary of Auditor General's Report for financial year 2013/2014, pg 10

While reviewing the revenue accounts at the Treasury, the Auditor general finds the absence of agreement in the amounts recorded and those that are reflected as received. What he highlights as important fact is that revenue receipts do not match with the records available for the total revenue that is recorded. Hus there's an unexplained gap of Kshs. 2.76 billion in the accounts presented to his office. This is a significant issue because the gap is a material sum and also because it has been highlighted in the previous reports and does not seem to have been resolved. Chart 2 a shows that the reconciled totals should be Kshs. 975 billion while the revenues received are at Kshs 972.2 billion.

Chart 2: Revenue not remitted to the Exchequer (Kshs Billions)



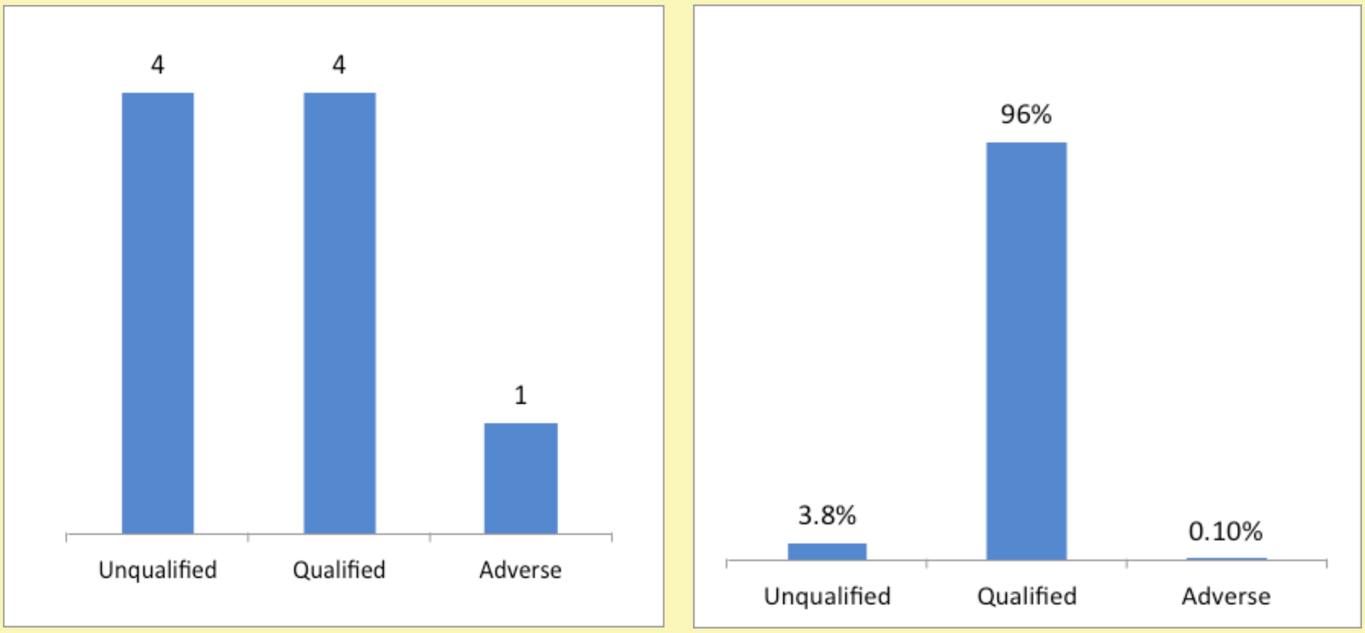
Source: Summary of Auditor General's Report for financial year 2013/2014,pg 12

Table 1: Definitions for Audit Opinions

Audit Opinion	Meaning
Unqualified	Financial statements give a true and fair view in accordance with the financial regulations hence public funds have been applied lawfully
Qualified	Financial statements do not give a true and fair view but are not as pervasive as to require an adverse or disclaimer opinion
Adverse	Financial statements are misleading or incomplete
Disclaimer	Financial Statements do not provide sufficient audit evidence hence not useful for auditing

Chart 3 illustrates the overall audit results for the financial years 2012/2013 and 2013/2014.In the financial year 2013/2014, the unqualified opinion indicates that unqualified statements improved from 12% in 2012/2013 to 26% in 2013/2014 hence an improvement in terms of compliance with government financial regulations and procedures and Public Finance Management Act, 2012.The statements with qualified opinion were 50% for both financial years 2012/2013 and 2013/2014 hence no improvement. The percentage of financial statements with adverse opinion worsened from 13% in 2012/2013 to 16% in 2013/2014 while that of disclaimer opinion improved from 25% in 2012/2013 to 9% in 2013/2014. This shows that overall, financial accounting has improved for unqualified statements and Disclaimer accounts, maintained the same standard for qualified statement and worsened for Adverse opinions for the financial year 2013/2014.

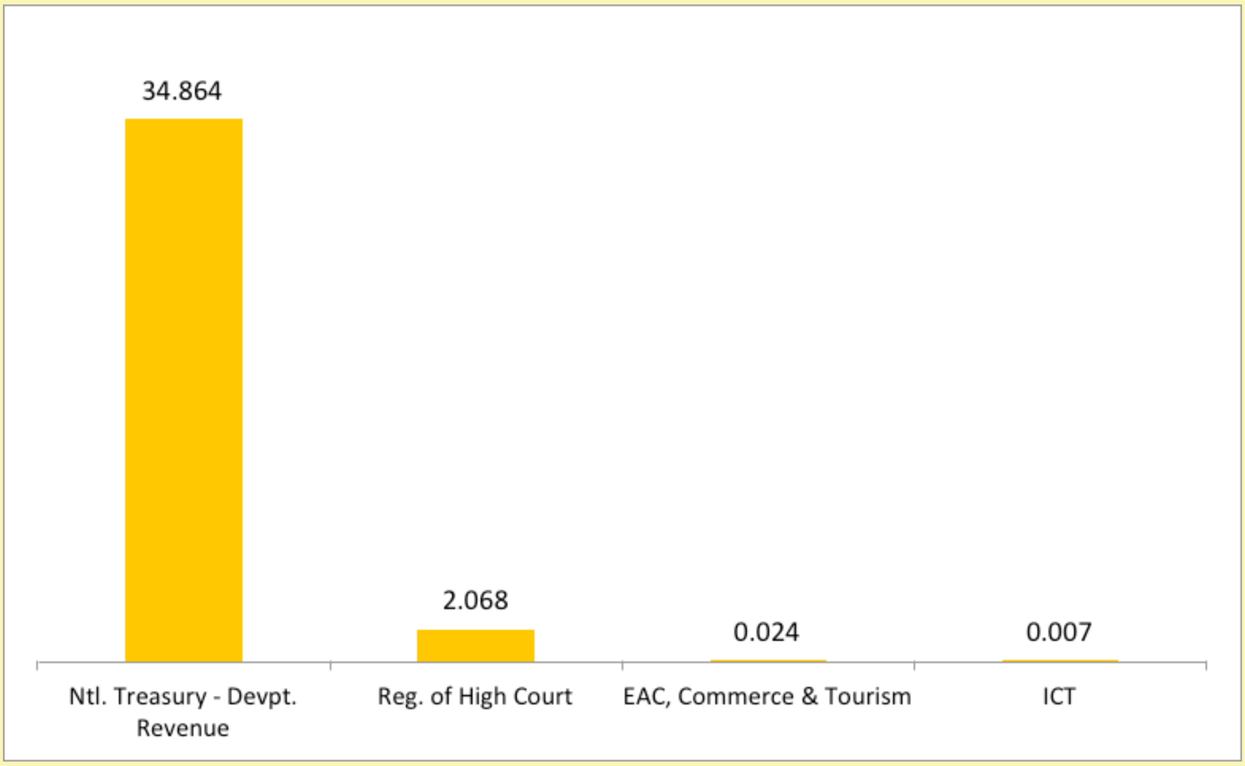
Chart 4: Revenue Statements 2013/2014



Source: Summary of the Auditor General's Report for the financial year 2013/14 Page 14

Chart 4 above shows the revenue statements for 2013/2014. The data is a breakdown of the total revenue collection of Kshs.966. 9 billion, which represents 94% of the estimated total receipts. Of the 94% collected receipts, the Auditor General expressed unqualified opinions on 4 statements, qualified opinions on 4 statements and an adverse opinion on 1 statement. Statements that received unqualified opinions account for 96.1% of all revenue collected while those with qualified opinions account for 3.8% and adverse opinion statements account for 0.1%.

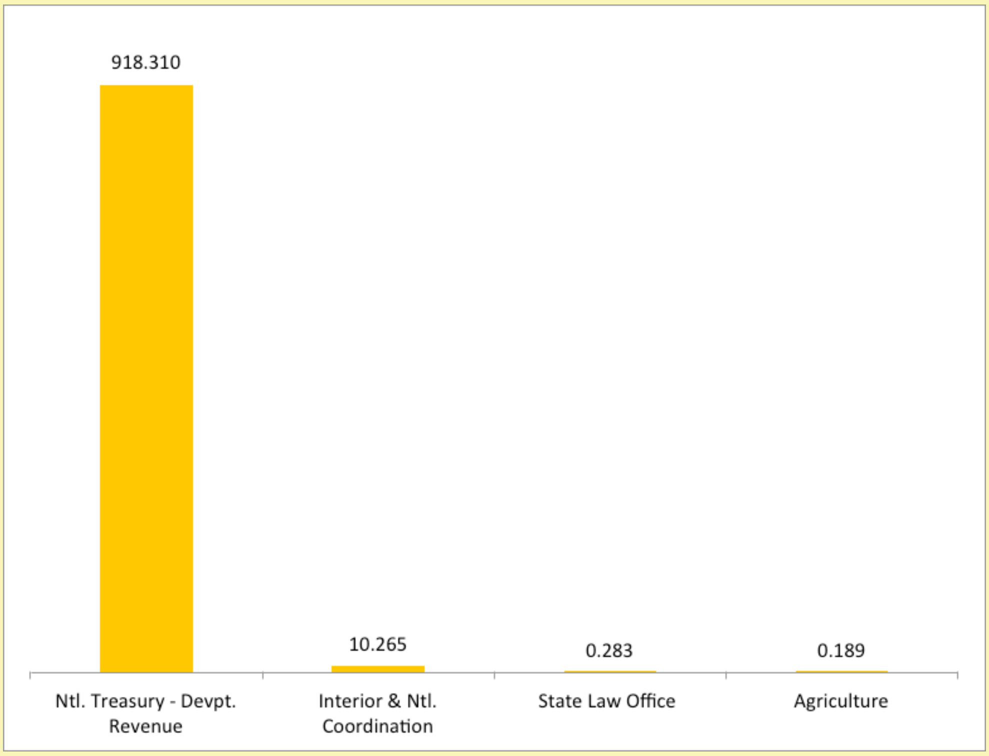
Chart 5a: Summary of Audit Opinions on Revenue Statements: Unqualified Opinion (Ksh Billion)



Source: Summary of the Auditor General's Report for the financial year 2013/14 Page 15

Chart 5a shows the various Collecting Ministries whose revenue statements received unqualified opinions from the Auditor General. The total revenue collected in this section amounts to Kshs. 36.96 billion. The National Treasury-Development Revenue accounts for the highest revenue in this section at Kshs. 34.86 billion while Information, Communication & Technology accounts for the lowest amount at Kshs. 6.68 million.

Chart 5b: Summary of Audit Opinions on Revenue Statements: Qualified Opinion (Ksh Billion)



Source: Summary of the Auditor General's Report for the financial year 2013/14 Page 15

Chart 5b shows the various Collecting Ministries whose revenue statements received qualified opinions from the Auditor General. The total revenue collected in this section amounts to Kshs. 929.05 billion. The National Treasury – Recurrent Revenue accounts for the highest revenue in this section at Kshs. 918.31 billion while State Law Office accounts for the lowest amount at Kshs. 283.02 million.

Adverse Opinion:

The total revenue collected in this section amounts to Kshs. 888.41 million, which was collected by The Ministry of Land, Housing & Urban Development.

Table 2: Summary of Audit Opinions on Combined Recurrent and Development Expenditure (2013/14)

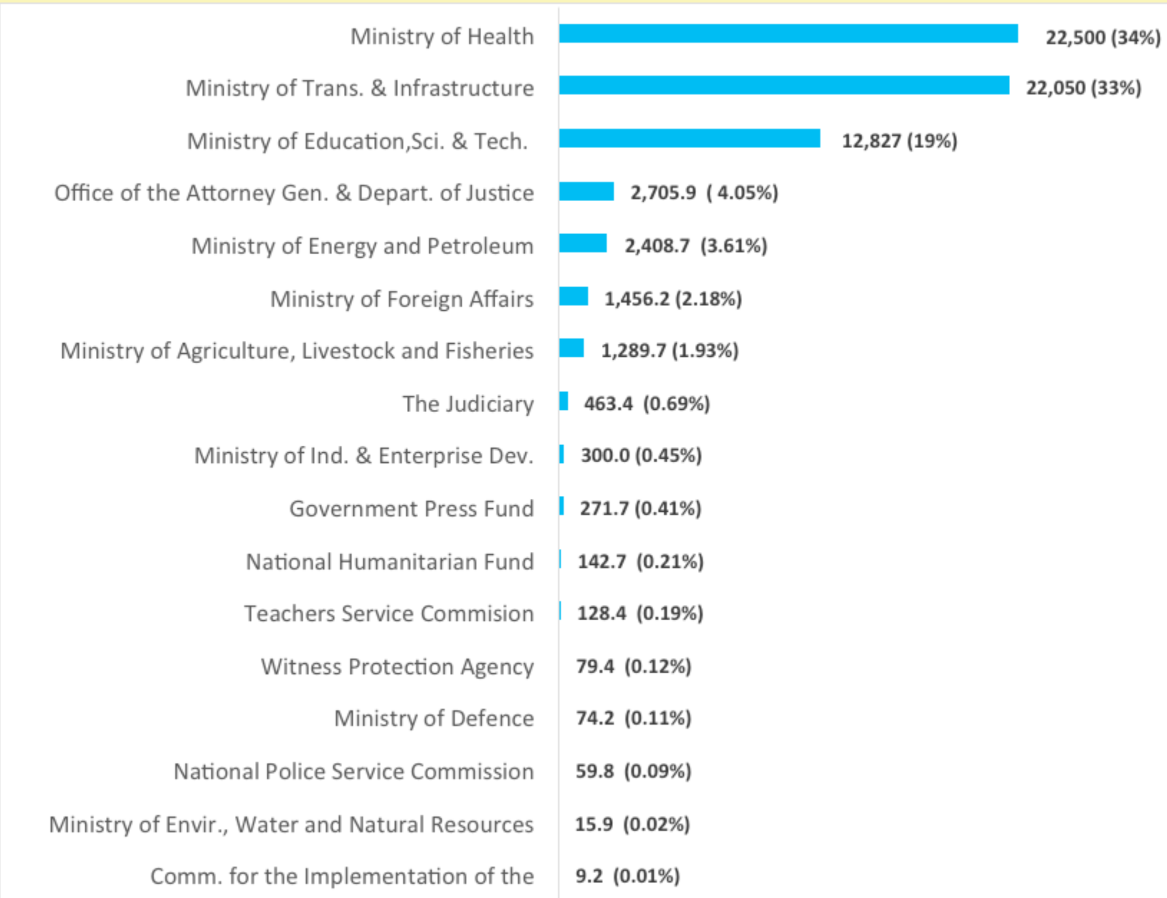
Opinion	No. of Financial Statements	Combined Recurrent & Development Expenditure (Ksh)	Percentage
Unqualified	12	12,581,506,707	1.2%
Qualified	23	602,897,473,907	60.0%
Adverse	6	390,266,678,539	38.5%
Other	1	2,953,580,898	0.3%
Total	**42**	**1,008,699,240,052**	**100%**

Source: Summary of the Auditor General's Report for the financial year 2013/14 Page 16

For the financial year 2013/2014, the total for both recurrent and development expenditures was Ksh 1.008 billion as captured in the table above. According to Table 1, only 1.2% of total spending representing Ksh 12.6 billion, received an unqualified opinion from the Auditor General's report. This means that the Auditor General's Office was satisfied that they were incurred lawfully and in an effective way. On the other hand, the Auditor General expressed a qualified opinion on total expenditures amounting to Kshs. 602.9 billion, representing 60% of all spending during that year. In addition, the Auditor-General was unable to confirm whether expenditures amounting to Kshs. 390.3 billion (38.5% of the total) were incurred effectively and lawfully as required by Article 229(6) of the Constitution of Kenya which states that *'An audit report shall confirm whether or not public money has been applied lawfully and in an effective way.'*

Appendix A of the report lists the financial statements for which the Auditor-General expressed an unqualified opinion as there was sufficient and accurate information and explanations provided.

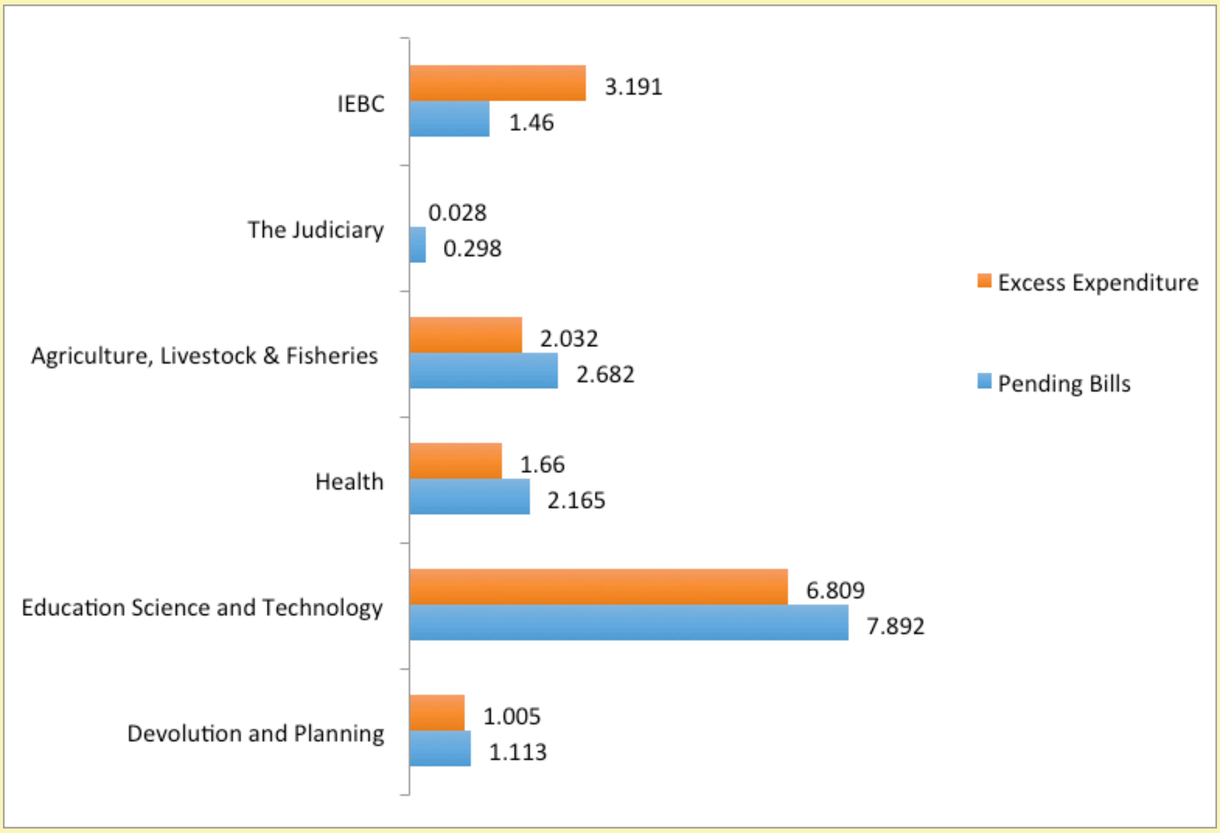
Chart 6: Unsupported Expenditure for the fiscal year 2013/14 (in millions)



Source: Summary of the Auditor General's Report for the financial year 2013/14 Page 18

Chart 6 on page 5 provides a summary of unsupported expenditures totaling to Ksh 66.78 billion by various Ministries, Departments, Commissions and Funds for the fiscal year of 2013/14. Unsupported expenditure refers to spending for which Ministries, Departments, Commissions and Funds fail to avail documents in support of that expenditure. From the chart, Ministry of Health, Ministry of Transports and Infrastructure and Ministry of Education Science and Technology have the largest expenditures which are not supported by the documents. They account 34%, 33% and 19% respectively. Out of all the reported agencies, the Commission for the Implementation of the Constitution has the least unsupported expenditures totaling to Ksh 9.2 million

Chart 7: Excess Expenditure and Pending Bills for the financial year 2013/14 (in Ksh billions)



Source: Summary of the Auditor General's Report for the financial year 2013/14 Page 21

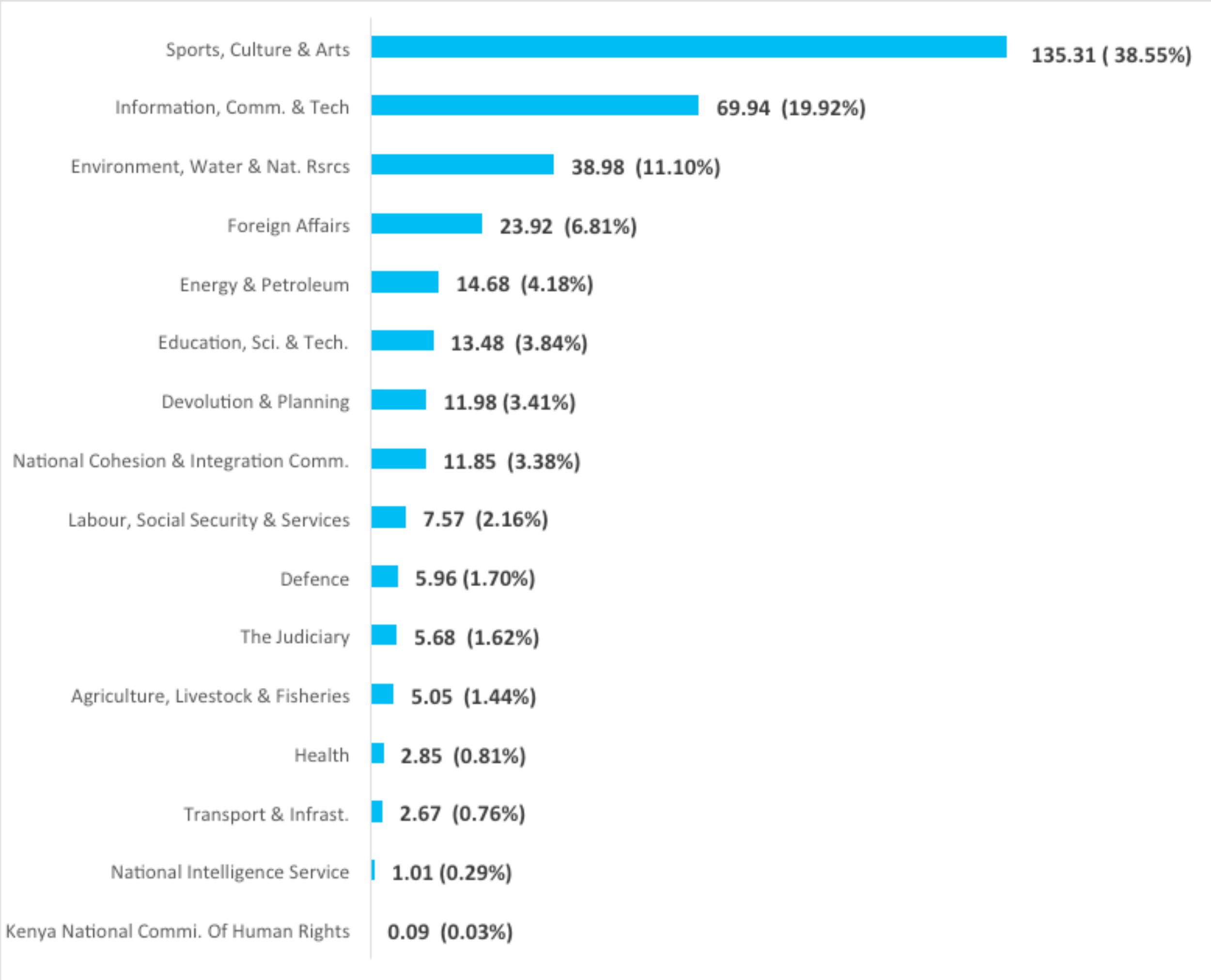
Chart 7 shows the total amount of pending bills for Ministries, Departments and Commissions on the blue bars. Pending bills refer to expenses that these departments have incurred but for which payments had not been made at the close of the financial year. They are therefore liabilities for which future income has been dedicated even if the Ministry or Department responsible has not made payment for it. The Ministry of Education had accumulated the largest quantum of pending bills at Kshs. 7.89 billion while the Judiciary had the lowest at Kshs. 298 billion.

In order to create a greater understanding of the effects of pending bills during that financial year, the Auditor general presented a table showing what the net effect of the pending bills would be if they were presented and paid for during the financial year in which these expenses were incurred. Pending bills represent a financial risk if they result from unauthorized spending or create over expenditure. The red bar on the chart above shows the net effect that pending bills would have had if the payments were made in good time.

It emerges that unlike all other departments with substantial pending bill, the Independent Electoral and Boundaries Commission (IEBC) stands out because its net position shows that its excess spending would be 3.19 billion. This is because its pending bills of Kshs. 1.46 billion was added to a deficit in the previous financial year and that results in an aggravated position. The Ministry of Education, Science and Technology would have an excess expenditure of Kshs. 6.8 billion if these pending bills were promptly. The overall picture is that only the judiciary would honour pending bills without a breach in the spending ceilings that were approved by parliament.

What Chart 7 shows is that these Ministries and departments, together with the IEBC are spending money and making financial commitments in excess of the allocations authorized by parliament.

Chart 8: Imprest Balances as at 30th June 2014 (in millions)



Source: Summary of the Auditor General's Report for the financial year 2013/14 Page 21

Chart 8 above illustrates the National Government's imprest balances amounting to Kshs.351.04 million which ought to have been recovered or accounted from Ministries, Departments or Commissions. It reveals that Ministry of Sports, Culture and Arts, Ministry of Information, Communication and Technology and the Ministry of Environment, Water and Natural Resources account for the largest balances of Ksh135.31 million, Ksh 69.94 million and Ksh 38.98 million respectively. Of all the reported agencies, Kenya National Commission of Human Rights had the lowest balance of Ksh 93,792 which accounted for 0.03% of the total amount.

Conclusion

The review of the audit report presented by the Auditor General for the Financial Year that ended on June 30, 2014 provide an opportunity to reflect on the state of public finances in Kenya. Primarily, it suggests that while the total spending and allocations to state departments are increasing, it is clear that these increments are based on a very weak foundation for financial management. A dispassionate view of the facts presented show that Kenya's public finance management and accounting processes are still highly manual, calling to question the degree of use to which the Integrated Financial management system (IFMIS) has been put to use in addition to whether all government records are available.

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