

PRESS STATEMENT

FOR IMMEDIATE RELEASE

Nairobi, April 23, 2024



ICPAK PRESS STATEMENT ON THE SENATE'S PUBLIC ACCOUNTS COMMITTEE REVIEW OF AUDITOR GENERAL REPORTS ON COUNTY GOVERNMENTS

Introduction

1. The Institute is mandated by the Accountants Act No.15 of 2008 to promote and regulate the accountancy profession in Kenya. This is done through prescribing standards of professional competence and practice amongst its members and by monitoring of compliance to professional, quality assurance and other standards published by the Council for observance by the members in line with the International Accounting Standards.
2. ICPAK as a champion of public interest appreciates the critical role of the Senate PAC as the oversight body, in scrutinizing public expenditures to promote fiscal responsibility and transparency. ICPAK has noted with great concern the issues raised regarding the audited financial statements and Auditor General's reports for county governments ranging from the financial years 2019/20 to 2022/23.

Preparation of Financial Statements and Audit Opinions

3. Considering how critical financial statements are in decision making process of organizations, governments, and other stakeholders as well as accountability framework of the public sector, ICPAK is committed to working with its members and other stakeholders to address these concerns in order to promote transparency and accountability in financial reporting.
4. We reiterate that all members of ICPAK regardless of their position or role, are expected to adhere to the prescribed professional standards, Code of Ethical Conduct for Professional Accountants, and accountability framework of the public sector.
5. Financial statements prepared under International Public Sector Accounting Standards (IPSAS) and prescribed by the Public Sector Accounting Standards Board serve as a critical link in the accountability framework linking Accounting Officers and Parliament (on behalf of the

people). The Auditor General expresses an opinion that helps Parliament make sense on whether the financial statements represent faithfully the state of affairs and transactions of a given public entity.

6. It is important to note that there are many organizations that have consistently been given clean opinions by auditors, in which case we applaud the institutions and our members who have achieved this over the years.
7. For instance, a quick review of the OAG Report for MDAs for the financial year 2022/23 indicates that 67% had a clean audit opinion, with 32% qualified opinion and 1% adverse opinion. This illustrates the fact that accountants in the public sector are striving hard to ensure prudent utilization of public resources. This is illustrated below:

Opinion	Number of entities	%
Unqualified	228	67%
qualified	109	32%
Adverse	2	1%
Disclaimer	1	0%
Total	340	

8. The opinions on county governments' financial statements have remained static over the years with the number of *qualified* opinions increasing and *disclaimer of opinion* decreasing. This is illustrated in the table below,

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
<i>Unqualified</i>	2	0	0	0	0	0
<i>Qualified</i>	30	38	41	42	35	41
<i>Adverse</i>	8	6	5	5	11	6
<i>Disclaimer</i>	6	1	1	0	0	0

9. However, there are a number that have received modified (qualified, adverse or disclaimer) opinion over the years. ICPAK is concerned that over the ten years of devolution in the Country, most of the County governments have consistently been issued with modified of auditor's report and for the few cases where unqualified reports have been issued, the same has not been sustained in the subsequent year. This calls for an analysis of the root cause not only of the preparers of the financial statements and other stakeholders in the financial management chain.
10. ICPAK will continue reviewing the Auditor General reports, to establish the basis of the audit opinions. These reviews will be to establish whether

the preparers of the financial statements adhered to the professional standards, laws and regulations that govern financial reporting. Where members are found to have failed to observe the Professional standards and laws as expected, the Institute's established disciplinary mechanism shall be applied in full.

ICPAK Membership Obligations

11. ICPAK is cognizant of the fact that the accounting profession carries significant responsibility in a strong national governance architecture that confronts corruption. In this regard, ICPAK calls for full commitment by its members to the Code of Ethics for Professional Accountants that requires them to uphold the highest standards of ethical conduct which include integrity, objectivity, professional competence and due care, confidentiality, and observance of good professional behaviour.
12. To ensure compliance, Accountants are advised to process only those transactions that possess the requisite supporting documents, have been properly approved and align with the organization's objectives and policies. This will help maintain the accounting process's integrity and foster trust between the organization and its stakeholders.
13. Membership in ICPAK signifies a commitment to the code of conduct. Organizations are urged to retain Accountant registered with the Institute and are in good standing, meaning they are free of disciplinary actions, have up to date current subscriptions, have completed their annual Continuous Professional Development (CPD) requirements. Upholding these standards fosters adherence to regulations and promotes the production of high-quality financial statements.

Transparency, Accountability and upholding Public Interest

14. ICPAK has a mandate in championing transparency and accountability by collaborating with other regulators and key players in financial reporting. This brings out the public interest role of ICPAK by ensuring the credibility of reports, vital for Kenya's economic development and investor confidence, ultimately creating a thriving business environment for youth. Our commitment extends beyond collaboration by actively combating corruption by promoting ethical practices within the profession. Our dedicated Public Sector Accountants Subcommittee plays a key role in this effort.
15. To empower its members, ICPAK has an elaborate CPD framework that is aligned to the International Education Standards for accountants. The trainings specifically meant for the public sector include but not limited to

Financial Reporting for County Government and other entities, Public Sector Accountants Conference, Public Sector Budgeting Seminar among other tailor-made courses. In addition, the program incorporates sessions on corporate governance, ethics and anti-corruption to continuously remind members of their role on promoting transparency and accountability in public and private organisations.

16. To encourage compliance with the highest standards in Financial Reporting, the Institute since 2002 in collaboration with the National Treasury, Capital Markets Authority, Public Sector Accounting Standards Board, Retirement Benefits Authority, Nairobi Securities Exchange among other players recognizes and rewards organizations that have complied with the reporting frameworks in a competition dubbed the FiRe Award every year. The Award has continued to enhance adherence to the appropriate financial reporting framework and ensure accurate disclosures on governance, social, and environmental reporting by private, public, and other entities operating in East Africa.

Review of the Accountants Act and National Treasury and other related Processes

17. The Institute is currently working with the National Treasury to amend the Accountant Act to deal with emerging issues both for the accountants in public practice and those in employment. The National Treasury is keen on supporting the Institutes role in monitoring compliance with the standards and laws by ICPAK members as well as ensuring that appropriate disciplinary actions are taken where misconduct has been reported.
18. In executing its function in advising the Cabinet Secretary National Treasury and Economic Planning, the Institute will continue to work closely with the National Treasury in reviewing recent reports by the Auditor General to establish the root cause of the modified opinions and design a remedial plan to avoid recurrence of the matters in the next audit cycle noting that quality reviews by the Treasury team for National Government entity's has yielded very good results.

Recommendations and Call for Action

- a. **Establishment of Financial Reporting Units:** ICPAK calls on all county governments and public institutions to establish Financial Reporting Units that shall have staff with the expertise required for Financial Reporting. Continuous development through training of such units' staff will lead to improved production consistent high-quality financial reports.

- b. **Technical Expertise for Senate Public Accounts Committee (PAC):** ICPAK proposes to nominate a qualified member of the institute to sit in the Senate Public Accounts Committee (PAC) hearings and to provide technical expertise on accounting matters.
- c. **Effective role of Accountants in the Public Procurement Process:** There is need to relook at the role and involvement of Accountants in public procurement process across the 28 stages of public procurement. Our review reveals that accountants are involved in the very last stages of payment hindering their effective assessment of price, value of the procured goods and services and the authenticity of documents provided.
- d. **Strengthen Oversight Through Internal Audit and Audit Committee Reports:** County governments should ensure internal audit reports and recommendations from the audit committees are taken seriously and acted upon. Treating these reports as formalities undermines their critical role in ensuring accountability and preventing future audit issues.
- e. **Disciplinary and Legal Action for Unethical Practices:** ICPAK has a well-structured independent disciplinary process that its members who fail professional conduct are taken through. Members of the public and institutions are encouraged to report these cases of misconduct for action.
- f. **Whistleblowing:** ICPAK calls for the establishment of a National Whistle blower Policy and enactment of Whistle blower Act even as it firmly supports whistle-blowers who utilize the established framework to report such misconduct, promoting ethical conduct within the profession. This comprehensive approach strengthens ethical conduct within the profession by holding both county heads and our own members accountable if found guilty.
- g. **Accounting Officers support:** Accounting officers play a central role in safeguarding public resources. ICPAK emphasizes the importance of these officers upholding the highest standards in financial management. This includes ensuring adherence to budgets and procurement procedures, as well as the accuracy of financial reports and value for money considerations.

Conclusion

ICPAK remains committed to leading the way in promoting financial reporting excellence and ensuring accountability across Kenya. We shall continue to ensure the highest professional standards are adhered to by vigilantly weeding out unqualified individuals and holding our members accountable through disciplinary actions. This commitment extends to firm support to the National Treasury, Auditor General, Controller of budget, Senate and Parliament among other Accountability Institutions.

Together, we strive for a future of zero-fault audits, fighting corruption, and strengthening financial reporting across the nation. This collaborative approach, built on the pillars of Credibility, Professionalism and Accountability – our credo– will create a financial governance system that fosters economic growth for the benefit of all Kenyans.

CPA PHILIP KAKAI
CHAIRMAN, ICPAK

ABOUT US

The Institute of Certified Public Accountants of Kenya (ICPAK) is a statutory body of Accountants established under the Accountants Act of 1978, and as repealed under the Accountants Act No.15. of 2008, with the mandate to develop and regulate the Accountancy Profession in Kenya. The Institute is also a member of the Pan Africa Federation of Accountants (PAFA) and the International Federation of Accountants (IFAC), the global umbrella body for the accountancy profession.

For further enquiries, please reach us at chairman@icpak.com and ceo@icpak.com.