

Problems of the Kinijit Audit

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I am a CPA and MBA with over thirty years of business experience and I have never seen an auditor going around and accusing and exposing his own clients based on information they gave him to audit. I have never heard of a CPA reporting his own client and its members and employees to the Internal Revenue Services and other governmental organizations. And I have never heard of a CPA announcing his client's bank account numbers on the radio. These are all gross violations of the Code of Professional Ethics of the CPA profession. In fact, some of the above manners of the CPA are possibly illegal.

I do not know Ato Tesfaye Asmamaw, CPA, who is the auditor of Kinijit and any of the individuals involved in his reports. However, I will discuss certain audit implementation defects I have noted, and when appropriate I will suggest recommendations. And I hope my report can be useful to Ato Tesfaye and Kinijit management.

In the last few months there were several press conferences and radio interviews by Ato Tesfaye. This auditor has publicly made many serious accusations on some individuals who are members or employees of his audit client, Kinijit. He has basically issued his audit report and various, critical and confidential client information through the media. Where is Kinijit's management?

The purpose of my writing is to explain certain discrepancies I have observed related to his audit approaches and conclusions. This is strictly based on the information I have noted through the media. Based on my analysis, even with the limited information I have, I believe that the audit was not performed, and reported according to the generally accepted auditing standards.

A CPA is required to hold in strict confidence all information concerning his clients' affairs which he obtains during the course of his audit or any other professional engagement. And exploitation of relations with a client for personal advantage is improper.

Independence

The most important characteristics of a CPA are his independence, integrity and objectivity. The auditing standards require that to give financial opinions as a CPA, the auditor has to be independent, and he must be without bias with respect to the audits. Otherwise he would lack the impartiality necessary for the dependability of his audit findings and audit reports.

Today, Ato Tesfaye is acting like the Chief Financial Officer and CPA of Kinijit. Ato Tesfaye does not appear to be an independent auditor. The CPA professional standards require an auditor to be independent in fact and independent in appearance.

Audit Exception report

In normal audit situations, the CPA writes a report of audit exceptions or problems the auditor has identified during the audit. Then the CPA discusses that report with key managerial personnel of the client. For each and every irregularity the CPA has identified there must be adequate documentation.

Finally, all exception issues are discussed and resolved satisfactorily both to the client and the CPA. Where there is disagreement, it is also explained and included in the final exception report. This report is generally called Management Letter, and it is strictly confidential and internal report. The job of the CPA is finished after giving the Management Letter to the client, except a follow up during the next audit.

Where is Ato Tesfaye's Management Letter? If there was such a report, he would have given it also to the media. It appears that he does not have a written report and that is why he is giving the media oral exception reports.

Illegal Acts by Employees

The CPA has reported that \$1.2 million has been stolen, wasted and unaccounted for. The following is a report by Ethiopian Media Forum on August 1, 2007:

Shaleka Yosef Yazew may face 15 years prison term for embezzling up to one million dollar public money, former Kinijit NA auditor, Ato Tesfaye Asmamaw exposes. IRS is investigating the case.

The above are extremely serious accusations. I am not sure whether Ato Tesfaye is using the media reporters or they are using him or both. Whatever the case, there is no justification for the CPA to make such kind of remarks about his client's representative.

However, according to the generally accepted auditing standards, whether an illegal act is performed or not is not a decision to be made by a CPA. This is a decision to be made by an attorney because this is beyond a CPA's training and professional competence. It is true that CPAs can recognize whether some acts are illegal or not. However, the determination as to whether a particular act is illegal or not has to be determined by an attorney and finally by the court of law.

Anyway, Ato Tesfaye is acting like the police officer, the prosecutor and the judge all at the same time. As an auditor, his responsibility is to thoroughly investigate the missing funds, gather substantive evidence, prepare a report explaining the situation and

confidentially discuss the condition and his concerns with top level Kinijit personnel and recommend to them to get advice from their lawyer. After that, the CPA's job is finished unless the client needs more clarifications or wants the CPA as a witness. Therefore, it is up to the management of the client to evaluate the situation and decide to take or not to take legal action.

As indicated earlier, in the real world CPAs do not go around and publicly discuss client legal issues. Probably Ato Tesfaye is the first CPA to take such a responsibility.

Audit Reports

One of the major functions of a CPA is to audit and issue financial reports. There is no clear indication on the media reports and interviews as to exactly what kind of audit Ato Tesfaye has performed. However, a CPA is required to indicate on all his reports, the scope of his audit and the audit procedures implemented and the limitations of his audit.

Anyway, I assume that he has performed a complete financial audit, which means that he has audited the balance sheets and the related statements of income, retained earnings, and cash flows as of the end of the latest fiscal period of Kinijit.

According to the audit standards of the CPA profession, the financial reports prepared and audited by the CPA are the responsibility of the management of the entity that is audited. However, whatever audit the CPA has done he must have documentations and audit working papers that show the engagement planning, implementation, and reporting of the audit.

The Kinijit management may have to evaluate or reevaluate about the misappropriations of funds reported by the auditor. I hope he has good working papers and documentations. Otherwise, management and the CPA are possibly exposed to potential litigations.

The Kinijit management must have detailed reports from the auditor about all the issues the auditor has been talking about. The Kinijit management must comprehend all the major issues of the audit report so that they can talk with the media instead of using the auditor to talk on their behalf, if that is what they are doing.

In one of his interviews, Ato Tesfaye said that any Ethiopian who contributed money to Kinijit can audit Kinijit. This is obviously wrong, and it is not even practical. However, auditing is very personal, confidential and professional relationship between an entity and a CPA. Kinijit has to immediately stop this process of the CPA auditing and reporting through the media.

Audit Approach

In the following section, I will discuss some of the CPA's audit approaches and related conclusions.

In August 2007 there was a report on Ethiopian Review titled Corruption Engulfing Kinijit Exposed Further, and the report indicated:

1. Ato Tesfaye has informed us that he has finished preparing a comprehensive report to be presented to the Kinijit executive committee in Addis Abeba.

- Is Ato Tesfaye an independent auditor or spokes person of Kinijit? CPAs do not issue audit reports to the press, and then give the report to the client. Audit reports are prepared for the client. The client has to review it, approve it, and take care of distributions.

2. Between these two individuals, according to the auditor, \$700,000 to \$1.2 million dollars have been stolen, wasted, or unaccounted for. This figure does not include funds collected in cash that had never been deposited in a bank account.

- The difference between \$700,000 and \$1,200,000 is \$500,000 or 42% of the missing funds. He should be more exact. For Kinijit \$500,000 is a lot of money. It is probably more money than they collect in a year. More investigation is necessary. In fact, if the CPA does not have strong evidence, there are legal implications.
- In addition, he stated that the above funds have been stolen, wasted, or unaccounted for. He needs to tell us how much was stolen, and how much was wasted and unaccounted for. We also need to know what criteria he used to classify them into stolen, wasted and unaccounted for. It looks like Kinijit has records for funds stolen, wasted and unaccounted for.
- He stated that the \$1.2 million missing funds do not include funds collected in cash which has never been deposited in a bank account. Here also the audit process is incomplete. How much cash is he talking about? If they collected a few hundred or a few thousand dollars, and they used the funds for ordinary and necessary business expenses it is not big audit issue. For the future all collections must be deposited in the bank.
- Again, the Kinijit management must review the audit procedures the CPA performed and his documentations and evidences to support his reports about the \$1.2 million that are stolen, wasted and unaccounted for.

3. Some of the wasteful expenses include \$4,000 for just one restaurant bill, \$6,000 for unauthorized trip to Kenya, etc.

- At this time the auditor is so specific, but he is concerned about a \$4,000 one restaurant bill and unauthorized trip to Kenya costing \$6,000. Mind you the total of these amounts is \$10,000 which is absolutely immaterial when \$1.2 million is missing. This also implies that the auditor has no details.

However, his audit approach even about the restaurant bill and the trip to Kenya are incomplete. They both need further investigation and clarification. What was the purpose of the restaurant bill, has he examined the supporting documents, and why did he consider it wasteful? If the expense was properly approved, documented and recorded, a CPA cannot say it is wasteful or not.

- His concern about the Kenyan trip is that the trip was not authorized. Was it a legitimate trip? Discuss it with the person with authority to authorize, and if it is approved there is no need to report it.

4. Only \$23,000 have been sent to Ethiopia to assist the families of the jailed leaders. But even this money was not given to those who needed it.

- I wonder what kind of audit procedures he used to ascertain that the money was not given to those who needed it. Let us assume that he obtained a list of all the people who needed help. Then he acquired another list of all the people who received money.

Then he compared the two lists and determined that all the people who received the money were the ones who did not need it. Then he became suspicious and obtained a list of the friends of Shaleka and Ato Moges. Since he does not trust these individuals, he directly contacted the friends and examined each of them to be sure they were real friends or not and to ascertain that they have received money they did not need.

The above observations indicate that the auditor's analyses are weak and his conclusions are not objective.

In one of the CPA's recent interviews a reporter told Ato Tesfaye that Shaleka Yosef has denied the accusation that he has stolen funds. The response of Ato Tesfaye was, "That is a wrong media." Then he said the right question should have been to ask whether the organization (Kinijit) is a private entity or a public entity. Then he went into other details and he evaded the question.

Anyway, this means that the Shaleka has his own media and Ato Tesfaye also has his own media. And the truth varies from media to media.

In conclusion, Kinijit as an organization has failed to protect its own privacy and confidentiality and the privacy and confidentiality of its own members and employees.

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