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The Path to Zero Fault Audits - Transforming Public Financial Management in Kenya

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### The Path to Zero Fault Audits - Transforming Public Financial Management in Kenya



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#### Abstract

**Purpose:** The practice of "zero fault audits" has been used to increase the efficiency of audits in developed and African countries. In Kenya, the Government has started a transformative "Zero Fault Audit" program launched by the Office of the Chief of Staff and Head of the Public Service. This undertaking seeks to change the behavior of public institutions to embrace disciplinary financial grievances characteristics and compliance by eliminating audit queries from the Office of the Auditor General.

**Methodology:** Zero Fault Audit relies on agency theory whereby it is important to have proper internal control and accountability mechanisms that ensure that the public officials (agents) act in the best interest of the public (principals). In the stewardship theory, public servants are assumed to have proper motives for the efficient governance of public resources. Thus, the results derived from the survey indicate that audit-free public organizations can achieve similar results in the subsequent year and, therefore, may be permanent champions among public organizations in the sphere of public financial management.

**Findings:** This article provides an overview of the theory under which the ZFA campaign will be conducted, outlines forces that are likely to drive the campaign, and defines basic features and strategies that are likely to shape the campaign.

**Unique Contribution to Theory, Practice and Policy:** The main objective is to minimize the reputational risks associated with audit findings, which include corruption, wasting resources, and lack of value for money, thereby affecting the effectiveness of development programs and efficient use of public funds.

**Keywords:** Zero Fault Audits (ZFA), Financial Transparency, Accountability, Public Sector, Agency Theory, Corruption

**JEL Codes:** D73, G38, H83, M42

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## INTRODUCTION

In developed countries, zero fault audit has become a new method in the framework of the Energy Savings Opportunity Scheme (ESOS) Trevisan, et al., (2023,) in the United Kingdom, large companies need to assess their overall consumption of energy and conduct assessments to identify cost-efficient energy-saving measures. Although the audits are required for any participant, the subsequent putting into practice of the elaborated recommendations rests in the participant. The research studies carried out for the UK government revealed both the increasing business interest and interest in supporting the net zero initiative while also pointing out a trend of ESOS as a compliance solution rather than a value addition and variation in the quality of assessment and recommendations from different assessors (Smith, 2022). The concept of "zero fault audit" aims to align the ESOS audit process more closely with the net zero objectives, (Rutter, & Sasse, 2022; Sasse, et al., 2020.) ensuring that the recommendations provided to businesses not only address energy efficiency but also support their overall decarbonization efforts, thereby contributing to the UK's ambitious climate goals (Rutter, & Sasse, 2022; Cordery, & Hay, 2022).

In the African setting, zero audits have been adopted in several African countries in the recent past to specifically enhance have been implemented in several African countries in the recent years to enhance financial accountability (Ahmed, & Anifowose, 2024; Nerantzidis, et. al., 2022). The primary purpose of the zero audit approach is that the government ministries, departments, and agencies respond to the previous year's audit findings and address all the recommendations at the onset of the new fiscal year (Dikuua, 2020). This assists in building better efficiency in public financial systems, limiting the chances of misuse of public money, and the development of confidence in the people in the government's capacity to properly manage the resources. The zero audit approach is built to work towards correcting past mistakes and enhancing a company's financial control before transitioning to a new fiscal period (Bagonza, Chen & Rech 2024; Amaglobeli et. al 2023). The adoption and implementation of this approach varies across the continent, the success of the zero audit depends on factors such as the capacity and independence of the national audit institution, the political will and commitment of the government, and the overall public financial management system in the country (Akongwale, 2020; Saputra, 2021).

In the dynamic world of PFM, the Government of Kenya has embarked on a process of change to attain the dream of Zero Fault Audits (Kururia, 2018). This elaborate initiative is currently under the direction of the COS&HOPS and aims at revolutionizing the policies of financial responsibility and openness within the public service domain. The main drive for this comes from findings across the various Auditor General's reports for the past few years (Gitonga, 2021). These reports have pointed out multiple inadequacies and inconsistencies in the processes of financial management in different PEs from unaddressed audit issues to absent controls and monitoring mechanisms (Girma, 2023). The generalization of these findings has not only led to revenue losses but also brought displeasure to the government and the public where they have developed no confidence in efficient management of resources. Noting the need to overcome such challenges, the COS&HOPS has introduced an extensive campaign known as the 'Zero Fault Audit' abbreviated as ZFA, which targets to make changes in culture in the public sectors to enhance financial discipline, compliance, and prudentialism. In this manuscript, distinguishing between what is known as the 'what' and the 'how' of the ZFA campaign, this manuscript looks into the conceptual understanding of the ZFA campaign,

implementation drivers, and the fundamentals, and determinants of the ZFA campaign features and strategies.

Despite the growing discourse on zero fault audits (ZFA) in public financial management, several gaps remain evident in existing literature. There is limited contextualized research within Kenya's public sector, particularly on how institutional capacity and policy enforcement influence ZFA success. The existing studies do not adequately examine the cost implications of unresolved audit queries and their dynamic effect on public trust and financial efficiency over time. There is insufficient empirical evidence on whether improvements in audit outcomes are statistically attributable to ZFA interventions or to other external reforms in public financial management systems.

### **The Concept of Zero Fault Audit (ZFA)**

At the heart of the ZFA campaign lies a simple yet powerful notion: the removal of audit queries from the OAG, (Karim, et. al., 2022; Barasa, 2015). The term "Zero Fault Audit" refers to the fact that public entities have no wish to attract a single audit query by non-compliance to all the existing laws, regulations, circulars, manuals, policies, and procedures (Kururia, 2018). Although the work schedule in achieving this objective can be cumbersome and strenuous, a survey conducted by the Office of COS&HOPS in May 2023 at Kenya Institute of Management was keen to provide a prognosis on the viability of this objective. The survey results thus showed that while there are several public entities, none of the respondents had been subjected to an audit query for two successive financial years, which affirms the fact that in the current world, an enterprise can be issued a "zero fault" audit (Karim, et.al., 2022; Gitonga, 2021). This, in turn, amplifies the need for having a strong internal audit within these organizations as this arms them with a strong defense against fraud and other related practices that are unlawful in societies today, which include; (Datta, Walker, & Amarilli, 2020).

The survey results indicated that some public entities that have passed audit queries in the given financial year can repeat the same in the following year this latter indicating that the selected public entities have attributes of excellence in their financial management (Karim, et al., 2022). On the other hand, it was also identified that non-response to such queries leads to a continuous loop of compliance breakdown and misuse of financial resources for the organization (Motubatse, 2016; Nagy et al., 2020). That is the core message of the ZFA concept – it is achievable for public entities to deliver the conditions where no audit deficiencies surface or, at the very least, they are identified and addressed internally before the external auditor can point them out. This approach is important in eliminating the negative effects of audit queries; these may lead to corruption, misappropriation, embezzlement, and wastage, hence compromising the value for money, the execution of development programs, and efficient and effective use of public resources (Datta et al., 2020).

### **Problem Statement**

Despite increasing efforts to strengthen public financial management (PFM) systems, many governments continue to face persistent audit queries, weak internal controls, and declining public trust due to financial mismanagement. While countries such as South Africa and Rwanda have implemented "Clean Audit" campaigns aimed at achieving unqualified audit opinions and strengthening accountability, the effectiveness, structure, and sustainability of such initiatives remain uneven and context-specific. In Kenya, the introduction of the Zero Fault Audit (ZFA) campaign represents a significant policy shift toward eliminating audit queries and improving financial discipline within public institutions. However, it remains

unclear whether ZFA constitutes a distinct audit methodology grounded in systematic reforms or merely a performance target aimed at achieving 100% unmodified audit opinions.

Existing literature has largely focused on general audit outcomes and governance frameworks, with limited empirical attention given to the mechanisms through which ZFA influences financial management practices, particularly within Kenya's public sector. Additionally, there is insufficient analysis of the cost implications of unresolved audit queries, including their impact on financial efficiency, corruption, and public trust. There is lack of clarity on how ZFA differs from or aligns with established global PFM initiatives.

This study, therefore, seeks to bridge these gaps by examining the role of ZFA in improving financial management practices, and identifying institutional factors that influence successful implementation. The findings are expected to benefit policymakers, public sector managers, auditors, and development partners by providing evidence-based insights to enhance accountability, and improve the efficient use of public resources.

### **Research Questions**

1. What is the effect of Zero Fault Audit initiatives on financial management practices in Kenya's public sector?
2. How do unresolved audit queries impact financial efficiency and public trust?
3. What institutional factors influence the successful implementation of ZFA in public entities?

### **Hypotheses**

**H<sub>1</sub>:** Zero Fault Audit initiatives have a statistically significant effect on improving financial management practices.

**H<sub>2</sub>:** Unresolved audit queries significantly increase financial inefficiencies and reduce public trust.

**H<sub>3</sub>:** Strong internal control systems positively influence the achievement of zero audit queries.

### **Theoretical Framework**

#### **Agency Theory**

Agency theory seems a useful paradigm for explaining the realities of experiences in the realm of public financial management (Onjewu, Walton, & Koliouis, 2023). Stephen Ross set up agency theory in the early 1970s and Barry Mitnick, with the latter credited for the institutional theory of agency. The theory is threatened by the concept of principals and agents. This relationship per se contains potential conflict of interest especially because when coming to the negotiation table, the agents are not always expected to have the common weal at heart whenever they are acting for the principals. Looking at agency relationships in general the theory assists in understanding and making sense of why sound systems of internal controls, audits, and accountability are pertinent in public financial management. These measures are important to ensure that the agents or public officials serve the overall objectives of the public (Ali, 2020).

The "Zero Fault Audit" (ZFA) program in Kenya could be viewed as an effort to build this agency relationship and improve financial management policies in public organizations. By applying agency theory, policymakers and leaders of the public sector can develop a more improved understanding of how structural and incentive-based factors prevalent in the system affect financial management outcomes. Such an understanding can then assist in gearing up the

right policies, control, and monitoring mechanisms, for the responsible and transparent use of public funds.

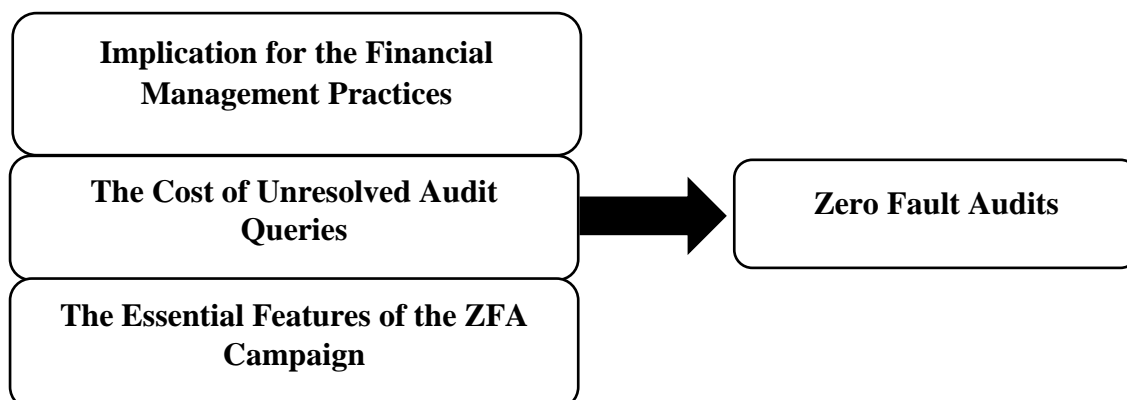
### **Stewardship Theory**

This paper is also anchored on the stewardship theory. Stewardship Theory was demonstrated by Donaldson and Davis in 1991 and improved in 1993 as a new approach to analyzing the current relationship between ownership and management of the company. As mentioned before, this theory comes as a good response to Agency Theory which examines agency relationships from the side of the principal. It provides valuable insight to people to understand how such officials can be applied in the right management of public affairs (Keay, 2017). In its essence, this theory underlines the self-generated desire of public servants to be accountable and responsible, dedicated to the noble cause of the organization and the public at large. Unlike the agency model based on the principal-agent relationship in agency theory, stewards are believed to have positive intra-organizational motivation for the utilization of public funds effectively and effectively (Murtaza, et. al., 2021). Promising to promote an institutional culture of transparency, accountability, and value for money, the theory essentially teaches that it is possible to transform the selected public servants into committed oversight agents of the taxpayers' cash.

The “Zero Fault Audit” (ZFA) campaign in Kenya can be considered as implementing the main principles of the stewardship theory (Mills, Bradley & Keast, 2021). Supervising the culture of financial compliance besides discipline across political officials, the ZFA initiative is intended to foster prudent management of public resources. This enables the public servants to actively personalize their management of the fiscal structures and mechanisms as opposed to simply following the various set policies and guidelines. There is empirical evidence that may suggest you if public officials adopt the values of stewardship, such officials are likely to be conscious of accounting irregularities, support audit functions, and correct irregularities wherever necessary in line with audit observations. But this very intrinsic motivation to protect public resources can result in the creation of a stronger Public Financial Management system.

### **Conceptual Framework**

The conceptual framework used in this article involves independent variables; Implication for the Financial Management Practices, Cost of Unresolved Audit Queries, and the Essential Features of the ZFA Campaign, and the dependent variable the Zero Fault Audits. It offers the concepts and theoretical framework for the study by aiding in establishing an understanding of the study's purpose, sample, and procedures. The conceptual framework is an important kind of research map that is used to guide the entire research process at once.

**Independent Variable****Dependent Variable**

Under Agency Theory, the Zero Fault Audit (ZFA) framework functions as a stringent monitoring and control mechanism that minimizes information asymmetry between public officials (agents) and citizens (principals). By enforcing strict compliance and eliminating audit queries, ZFA constrains opportunities for financial mismanagement, opportunistic behavior, and corruption.

Simultaneously, from a Stewardship Theory perspective, ZFA reinforces intrinsic motivation among public servants by promoting a culture of responsibility, ethical conduct, and commitment to public value. Rather than relying solely on external controls, it encourages officials to act as faithful stewards of public resources. The integration of these two theories positions ZFA as both a disciplinary and motivational tool, enhancing transparency, accountability, and sustained efficiency in public financial management.

**METHODOLOGY**

This study adopted a quantitative research approach using a descriptive and explanatory design to examine the effectiveness of the Zero Fault Audit (ZFA) initiative in Kenya's public sector. Data were collected from public entities using structured questionnaires targeting finance officers, auditors, and administrators. Secondary data were also obtained from Auditor General Reports (2019–2024). A stratified sampling technique was used to ensure representation across ministries, departments, and agencies. Data analysis involved both descriptive statistics (percentages, frequencies) and inferential statistics, including chi-square tests to establish relationships between variables. Results were presented using tables and trend analysis to enhance interpretability.

**Research Design**

The study employed a descriptive and correlational research design. The descriptive component enabled the analysis of trends in audit outcomes and financial management practices, while the correlational design facilitated examination of relationships between ZFA implementation and audit performance indicators. This design was appropriate as it allows for both trend evaluation and hypothesis testing without manipulating study variables.

**Target Population**

The target population comprised all public sector entities in Kenya, including ministries, departments, agencies (MDAs), and state corporations, as well as key personnel involved in

financial management such as auditors, accountants, and finance officers. These groups were selected due to their direct involvement in audit processes and financial reporting.

### Sample Size and Sampling Techniques

A stratified random sampling technique was used to ensure adequate representation across different categories of public entities. The strata included MDAs, state corporations, and donor-funded projects. Within each stratum, respondents were selected using simple random sampling. The sample size was determined using standard sampling formulas to ensure statistical validity and reliability.

### Data Collection Instruments and Validation

Primary data were collected using structured questionnaires consisting of both closed-ended and Likert-scale questions. The instruments were designed to capture perceptions on audit practices, compliance levels, and ZFA implementation. To ensure validity, content validity was achieved through expert review by professionals in public financial management. Construct validity was ensured by aligning questions with study objectives and variables. Reliability was tested using Cronbach's Alpha, with a threshold of 0.7 considered acceptable. Secondary data were obtained from Auditor General Reports, policy documents, and institutional records.

### Data Analysis and Presentation

Data were analyzed using both descriptive and inferential statistical techniques. Descriptive statistics included frequencies, percentages, and trend analysis to summarize audit outcomes. Inferential statistics, particularly the Chi-square ( $\chi^2$ ) test, were used to examine relationships between variables such as financial management practices and audit outcomes. Results were presented using tables.

### The Genesis of the ZFA Campaign: Insights from Auditor General Reports

The ZFA campaign has received significant input from the string trends that have been observed from the Auditor General's reports in recent years. These reports have been enlightening and have broken the success of the analysis of the systematic impediments to the orderliness of public financial management in Kenya.

**Table 1: Implication for the Financial Management Practices of the Executive Arm of the Government**

Variables	2019/2020	%	2020/2021	%	2021/2022	%
Unmodified (excellent/outstanding)	112	33.04	86	25.37	104	29.63
Qualified (Uncertainty- Bad)	212	62.54	229	67.55	225	64.1
Adverse (Extremely Bad)	13	3.83	21	6.19	21	5.98
Disclaimer (Unable to Opine)	2	0.59	3	0.88	1	0.28
<b>Grand Total</b>	<b>339</b>	<b>100.00</b>	<b>339</b>	<b>100.00</b>	<b>351</b>	<b>100.00</b>

*Note: Table 1 reflects study-specific sample data focusing on the Executive Arm of Government; hence.*

The Auditor General's reports have highlighted the various types of opinions that can be issued, each carrying a distinct implication for the financial management practices of the executive arm of the government. The reports have consistently revealed that a significant portion of public entities have received "qualified" or "adverse" opinions, indicating the presence of uncertainties, material misstatements, or an inability to provide a comprehensive assessment of their financial affairs.

For the three months ended 30 September 2019, all the business segments posted growth of which only the Electricity segment had Re100 billion or USD 33. Of the public entities, 04% responded with an 'unmodified' (excellent/outstanding) while the rest 66. Three-quarters obtained either qualified (25. 37%), adverse (3. 83%), or disclaiming (0. 59%) opinion. The trend went worse in the following years, and the proportion of 'unmodified' opinions reduced to 25 percent. Thirty-seven percent in the academic year 2020/2021 and 29. 63% in 2021/2022. Altogether, these numbers present a rather distressing picture with over seventy percent of public entities receiving adverse audit opinions pointing to the fact that the country is in a rather critical condition that needs to be intervened immediately. Another similar identified signal is the augmentation in the percentage of the 'qualified,' 'adverse' and the 'disclaimer' opinions while there is a general decrease in the 'unmodified' audit opinions for the state departments and state-owned enterprises of the three years.

The Auditor General's reports also included the common audit observations and emerging problems that affect the public entities. Some of these areas are outstanding bills, failing to deduct statutory contributions and remit to the rightful collection centers, unbalanced transfers to other state departments, no audit committees, lack of title deeds to land, unauthorized issues of imprests, preparation, and certification of financial statements outside IFMIS and outstanding audit findings arising from prior year audits.

**Table 2: Association of Audit Opinions and Financial Years**

Reason	Pearson Chi-square (X <sup>2</sup> )	P < 0.05
Implication for Financial Management Practices	7.84	.249

The Pearson Chi-square statistic ( $\chi^2 = 7.84$ ,  $df = 6$ ,  $p = .249$ ). Since  $p = .249 > 0.05$ , there is no statistically significant difference in audit opinion distribution across the three financial years. Audit outcomes (Unmodified, Qualified, Adverse, and Disclaimer) did not significantly vary from 2019/2020 to 2021/2022. Financial management practices appear relatively stable across the period. However, the consistently high number of qualified opinions suggests persistent compliance and control weaknesses. Reforms may not yet be strong enough to produce measurable improvement in audit outcomes.

### The Cost of Unresolved Audit Queries

The failure to address and resolve audit queries has far-reaching consequences that extend beyond the individual public entities and directly impact the nation as a whole. The COS&HOPS has identified several key costs associated with the accumulation and non-resolution of audit queries, which warrant urgent attention.

**Table 3: The Cost of Unresolved Audit Queries**

Variables	2019/2020	%	2020/2021	%	2021/2022	%
Financial Loss and Wastage of Public Resources	131	38.64%	123	36.28%	132	38.94%
Fostering Corruption and Eroding Public Trust	161	47.49%	153	45.13%	125	36.87%
Reputational Damage and Operational Inefficiency	31	9.14%	34	10.03%	33	9.73%
Loss of Confidence in the Government	16	4.72%	29	8.55%	49	14.45%
<b>Grand Total</b>	<b>339</b>	<b>100.00%</b>	<b>339</b>	<b>100.00%</b>	<b>339</b>	<b>100.00%</b>

Table 3 above shows the Cost of Unresolved Audit Queries. The most significant concern among the 339 respondents was the financial loss and wastage of public resources, which

ranged from 38.64% in 2019/2020 to 38.94% in 2021/2022. This indicates that unresolved audit queries continue to result in significant financial losses and the wastage of limited public resources, which could have been better utilized for critical public services and development initiatives. The persistence of this issue undermines the effective and efficient use of taxpayer funds. Unresolved audit queries can result in significant financial losses and the wastage of scarce public resources. These losses can manifest in the form of penalties, fines, or other legal consequences, further stretching the limited resources available for development and service delivery.

The second-highest concern was fostering corruption and eroding public trust, which decreased from 47.49% in 2019/2020 to 36.87% in 2021/2022. While the relative importance of this issue appears to have decreased over the three years, the continuance of unresolved audit queries still creates an environment conducive to corruption, further eroding public trust in the government's ability to ensure accountability and transparency in the management of public resources. The failure to address audit queries and close them off, or worse, repeatedly making the same mistakes, can create an environment that is conducive to corruption. This, in turn, has a disastrous effect on the country, eroding public trust and investor confidence in the government's ability to manage public resources effectively.

Reputational damage and operational inefficiency had the lowest percentage, ranging from 9.14% in 2019/2020 to 9.73% in 2021/2022. Though respondents seem to perceive this as less of a concern compared to the other cost categories, the long-term accumulation of unresolved audit queries can still negatively impact the government's credibility, stakeholder relationships, and overall operational efficiency. The persistent accumulation of audit queries can inflict reputational damage on the audited organizations and the government as a whole. This can make the Kenya Kwanza administration appear irresponsive, irresponsible, inefficient, and an ineffective custodian and manager of public resources. Such perceptions can negatively impact the government's credibility and its ability to collaborate with development partners, donors, and other stakeholders.

The most alarming trend was the growing percentage of respondents who viewed unresolved audit queries as a contributor to the loss of confidence in the government, increasing from 4.72% in 2019/2020 to 14.45% in 2021/2022. This could significantly hinder the government's ability to secure support and investments from citizens, development partners, and other stakeholders, ultimately impacting the government's capacity to drive development and improve the well-being of the people. Unresolved audit queries can lead to a loss of confidence in the government by the citizenry, development partners, donors, and other stakeholders. This can significantly affect their willingness to provide support or investments, further hindering the government's ability to drive development and improve the well-being of the people.

**Table 4: Association of Cost of Unresolved Audit Queries and Financial Years**

Reason	Pearson Chi-square (X <sup>2</sup> )	P < 0.05
Cost of Unresolved Audit Queries	14.62	.023*

The Pearson Chi-square statistic ( $\chi^2 = 14.62$ ,  $df = 6$ ,  $p = .023$ ). Since  $p = .023$  is less than the 0.05 threshold of significance, the results indicate a statistically significant difference in the perceived costs of unresolved audit queries across the three financial years. This means that stakeholders' assessment of the consequences associated with audit failures changed meaningfully over time. The distribution of responses relating to financial loss, corruption, reputational damage, and loss of confidence did not remain constant, suggesting shifting

governance pressures. Notably, the increase in reported loss of confidence in government in 2021/2022 reflects heightened public trust concerns. These findings underscore the urgent need to strengthen audit follow-up systems, enhance accountability, and implement corrective measures to mitigate escalating institutional and reputational risks.

### The Essential Features of the ZFA Campaign

The ZFA campaign includes essential features that tackle lasting audit queries and related expenses. The essential features create the groundwork to direct public financial management toward financial discipline and accountability programs. The ZFA campaign starts by clearing all financial and audit queries that accumulated in prior Auditor General Reports. The house cleaning operation serves as an essential requirement because it allows public entities to begin fresh without previous unresolved issues. The completion of the current financial year audits for 2022/23 will require all public entities that receive audit queries to resolve those queries within March 2024. The campaign reaches its essential stage because addressing audit findings without delay demonstrates the importance of solving matters immediately before they build up.

**Table 5: The Essential Features of the ZFA Campaign**

Variables	2019/2020	%	2020/2021	%	2021/2022	%
Achieving Zero New Audit Queries	131	38.64%	123	36.28%	132	38.94%
Escalation and Assistance for Anticipated Audit Queries	161	47.49%	153	45.13%	125	36.87%
<b>Grand Total</b>	<b>339</b>	<b>100.00%</b>	<b>339</b>	<b>100.00%</b>	<b>339</b>	<b>100.00%</b>

Table 5 shows the outcome of the essential Features of the ZFA Campaign. Achieving Zero New Audit Queries is recognized as an essential feature of the ZFA (Zero Findings Audit) campaign. This feature had a relatively stable percentage, ranging from 38.64% in 2019/2020 to 36.28% in 2020/2021 and 38.94% in 2021/2022. This suggests that the government is focused on preventing the accumulation of new audit queries, which would help address the root cause of the problem and alleviate the financial losses, corruption, and loss of public trust associated with unresolved audit queries. Through the "Zero Fault Audit" campaign the initiative works to maintain absolute avoidance of new audit queries at public entities. The ZFA initiative uses this target to create a framework that enhances financial compliance and risk management awareness at all levels of public sector institutions. The ZFA campaign urges government institutions to establish robust financial practices and accountability because it strives to eliminate all new audit queries. Public financial management excellence stands as this target which demands entities solve any audit concerns immediately to stop recurring issues from developing.

The achievement of this target demands three-fold interventions by strengthening internal control systems providing all-embracing staff training and deploying solid financial reporting processes. Public entities must speed up audit query resolution and actively search and defend against financial operation risks that might emerge before they become recurring issues. The ZFA campaign's achievement of this landmark shows the government's dedication to financial transparency and expresses standards for public sector financial management which can serve other jurisdictions as an example. By implementing this initiative, the government moves beyond past accomplishments toward shaping an efficient public administration system that puts citizen welfare first.

Providing Escalation and Assistance for Anticipated Audit Queries is another essential component of the ZFA campaign. This feature had the highest percentage, declining from 47.49% in 2019/2020 to 45.13% in 2020/2021 and further to 36.87% in 2021/2022. While the relative importance of this feature has decreased over the three years, it remains an essential part of the campaign. This approach indicates that the government recognizes the need to proactively address and resolve audit issues before they become unmanageable. By providing escalation and assistance for anticipated audit queries, the government can help reduce the financial and reputational costs associated with unresolved audit queries. The ZFA campaign recognizes that there may be instances where a public entity anticipates an audit query due to circumstances beyond its control or capabilities. In such cases, the entity is required to escalate the issue to the relevant Principal Secretary for further guidance and assistance, with a copy of the escalation provided to the Office of COS&HOPS.

**Table 6: Chi-Square Test of Association between Essential Features of the ZFA Campaign and Financial Years**

Reason	Pearson Chi-square (X <sup>2</sup> )	P < 0.05
Essential Features of the ZFA Campaign	3.41	.182

Table 6 presents the Pearson Chi-square statistic ( $\chi^2 = 3.41$ ,  $df = 2$ ,  $p = .182$ ). Since  $p = .182$  is greater than the 0.05 level of significance, the result indicates that there is no statistically significant difference in the emphasis placed on the essential features of the ZFA campaign across the three financial years. This suggests that the campaign consistently focused on achieving zero new audit queries and strengthening escalation mechanisms for anticipated audit issues. The stability reflects continuity in policy direction and administrative commitment. However, maintaining a consistent strategy does not automatically imply that the campaign is achieving its intended objectives. Therefore, further performance-based evaluation is necessary to determine whether the initiative leads to measurable improvements in audit outcomes.

### Trend Analysis of Audit Opinions on Financial Statements in the Last Five Years

The presentation evaluates audit opinions of financial statements throughout the previous five years. The analysis of unmodified along with qualified and adverse and disclaimer opinions describes financial reporting quality and audit compliance evolution. Audit data demonstrates both advancing and enduring financial governance and accountability issues throughout inspected organizations.

**Table 7: Audit Opinions on Financial Statements in the Last Five Years**

Audit Opinion	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	Trend
Unmodified	42 (44.20%)	42 (46.70%)	57 (52.30%)	75 (62.50%)	79 (64.23%)	↑ Steady increase
Qualified	47 (49.50%)	45 (50.00%)	50 (45.90%)	43 (35.80%)	42 (34.15%)	↓ Gradual decline
Adverse	4 (4.20%)	2 (2.20%)	1 (0.90%)	1 (0.80%)	1 (0.81%)	↓ Significant drop and stabilizing
Disclaimer	2 (2.10%)	1 (1.10%)	1 (0.90%)	1 (0.80%)	1 (0.81%)	↓ Minimal and stable

*Note: Table 7 is based on Auditor General's consolidated national reports.*

Table 7 shows audit opinion trend analysis throughout the past five years reveals substantial enhancements in financial reporting quality level. Audit opinions that lacked modifications to reflect fair presentation of financial statements in all material respects grew consistently from 44.2% in 2019/2020 to 64.23% in 2023/2024. The increasing trend demonstrates that entities

enhance compliance with reporting standards as well as strengthen their internal control systems. Financial statement quality has shown improvement based on the decrease in qualified opinions from 49.5% to 34.15% during this period. The clean audit trend reveals enhanced financial management and governance practices which reporting entities have implemented everywhere.

There has been a visible decline in audit results which are severe in nature. The total number of adverse and disclaimer opinions issued by auditors equals less than 1% of all audit opinions and exhibits stable declining patterns from recent years. The uniform pattern of these figures signifies that important financial reporting problems are declining in frequency. The positive direction of financial transparency in reporting emerges from the trend analysis but organizations must keep working on additional improvements according to qualified and adverse opinion indicators.

**Table 8: Audit Opinions on Financial Statements (Last Five Years)**

Financial Year	Unmodified (Zero Fault)	% of Total	Total Audits
2019/2020	42	44.20%	95
2020/2021	42	46.70%	90
2021/2022	57	52.30%	109
2022/2023	75	62.50%	120
2023/2024	79	64.23%	123

Table 8 presents a clear upward trend in the number and percentage of unmodified (zero faults) audit opinions issued over the last five years. In 2019/2020, only 42 out of 95 audits (44.2%) received unmodified opinions, whereas by 2023/2024, that number increased to 79 out of 123 audits (64.23%). This consistent improvement suggests that more entities are producing financial statements that meet audit standards without material misstatements or qualifications. The steady rise in the total number of audits from 95 to 123 also indicates expanded audit coverage or increased transparency and reporting obligations.

The implications of this trend are largely positive. A growing percentage of unmodified opinions signals stronger financial governance, better compliance with accounting standards, and improved internal controls across audited entities. This enhances stakeholder confidence and indicates that public sector reforms or audit capacity-building initiatives may be yielding results. However, with over one-third of entities still not receiving clean audits as of 2023/2024, there's a clear need for continued support, training, and oversight to ensure consistent financial reporting quality across all institutions.

**Table 9: Audit Results for 2024 – National Government Entities (Excl. National Funds)**

Client Type	Unmodified (Zero Fault)	Qualified	Adverse	Disclaimer	Total
MDAs - Voted Entities	56	27	-	-	83
Revenue Statements	8	4	-	-	12
Donor Funded Projects	169	43	1	-	213
Others	15	11	1	1	28
<b>Total</b>	<b>248</b>	<b>85</b>	<b>2</b>	<b>1</b>	<b>336</b>

Table 9 demonstrates that 248 national government entities among 336 (approximately 74%) obtained unmodified audit opinions in 2024. Financial reporting practices together with compliance standards demonstrate a robust performance level within all national government departments and programs. Donor Funded Projects demonstrated the best accountability in handling external funds because their audits yielded 169 unmodified opinions. The number of

qualified opinions among MDAs – Voted Entities and Revenue Statements amounted to 27 for Voted Entities while the Revenue Statements reported 4 qualified opinions indicating weak spots in control systems.

A small number of companies with adverse (2) and disclaimer (1) opinions appear under the "Others" category indicating serious difficulties in financial management and audit preparedness persist within certain entities. The negative opinions point to audit evidence problems together with material misstatements that block auditors from issuing valid opinions. Organizations holding qualified or adverse or disclaimer opinions face major risks including decreased trust from stakeholders and problems obtaining funding. National government entities require sustained capacity training along with stronger financial oversight and control systems to guarantee consistent transparent financial reporting.

**Table 10: Revenue Statements – 2024 Summary**

Audit Opinion	No. of Revenue Statements	Percentage
Unmodified	8	67%
Qualified	4	33%
Adverse	0	0%
Disclaimer	0	0%
<b>Total</b>	<b>12</b>	<b>100%</b>

Table 10 shows that auditor opinions on financial statements were unmodified for 67% of cases due to accurate reporting according to applicable standards. The revenue reporting accuracy for 2024 shows a mainly strong reliability level. Thirty-three percent of the statements obtained qualified opinions that showed material issues and scope dimensions while not being so critical as to require an adverse or disclaimer opinion.

The limited appearance of adverse or disclaimer opinions shows that no significant errors or insufficient documentation issues existed regarding revenue statements. The presence of qualified opinions in one-third of revenue recognition statements indicates insufficient improvement needs either in recognition practices or in organizational controls. Interaction with specific issuance factors that lead to qualified reports must be addressed by entities while setting a goal for unmodified audit results across future financial statements.

**Table 11: Chi-Square Test of Association between Financial Year and Audit Opinion Category**

Variable Examined	Pearson Chi-square ( $\chi^2$ )	df	p-value	p < 0.05
Financial Year × Audit Opinion Category	7.460	6	.280	No

The Pearson Chi-square statistic ( $\chi^2 = 7.460$ ,  $df = 6$ ,  $p = .280$ ) indicates that there is no statistically significant association between financial year and audit opinion category at the 5% level of significance. This suggests that variations in Unmodified, Qualified, Adverse, and Disclaimer opinions across 2019/2020, 2020/2021, and 2021/2022 were not statistically different, implying relative stability in financial management performance over the study period.

### Conclusion

The "Zero Fault Audit" (ZFA) campaign initiated by the Office of the Chief of Staff and Head of the Public Service (COS&HOPS) in Kenya advances a transformative initiative to redefine public sector financial accountability along with transparency standards. The ZFA campaign targets public institutions through a commitment to develop financial discipline and

compliance and demonstrate prudent financial management based on Auditing General report indicators. The essential aspect of ZFA consists of eliminating audit problems through complete adherence to laws and all regulations circulars manuals policies and procedures. The survey showed positive results regarding this goal since some entities experienced multiple consecutive years without facing any audit queries due to their effective internal audit functions that protected them from financial irregularities. The ZFA campaign aims to defend against audit query consequences that trigger corruption, resource misallocation, resource wastage, and poor value for money delivery thereby affecting development program implementation and public funds utilization. Through its implementation of the ZFA approach, the Kenyan government pursues the goals of enhancing public financial management while regaining public trust to support national development and prosperity.

### **Recommendations**

1. The Office of the Auditor General (OAG) requires enhanced capacity with boosted independence to fulfill its duties effectively. The necessary resources alongside independence and specialized expertise permit the OAG to execute independent and unbiased audits which lead to more credible findings.
2. The effectiveness of internal audit departments requires additional financial investment to develop their capacity for finding and resolving financial irregularities before they turn into external audit issues.
3. Political officials should feel comfortable owning their financial responsibilities by actively joining the ZFA initiative because the workplace needs to promote both discipline and compliance in financial management.

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