

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL EXAMINATIONS COUNCIL FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Examinations Council set out on pages 1 to 57, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya National Examinations Council as at 30 June 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Work in Progress

As reported in the previous years, the Council has been constructing the New Mitihani house in South C and the works have been going on for the last thirty (30) years. Records available indicate that the Council awarded Phase VI contract to M/s Ongata Works Limited in 2013 at a contract sum of Kshs.1,499,989,252 for a contract period of 78 weeks towards internal portioning and finishes, fittings building services and external works to the entire building vide contract no NMH-06/2012. Although the contractor had his contract period extended to 30 July 2017, as at 10 March 2019, the works stood at 59% level of completion and management had terminated the contract. As at 30 June 2018, the Council had paid Kshs.818,379,878 net of retention while certified works stood at Kshs.891,303,752 representing 59% of the original contract sum. It is not clear and management has not explained the mismatch between the certified level of works and level of completion of the project.

In addition, with the cancellation of the contract, management risks legal suit from the contractor and this may further delay the completion of the project. Management has not provided a roadmap on how it intends to complete the project. In the circumstances, the delays in completion will lead to cost escalation and stakeholders may not get value for their resources if this project is not completed and put to its intended purpose.

Further, examination of payment records for the project revealed a payment of Kshs.104,124,834.57 in respect to certificate no 26. Included in this payment is Kshs.57,008,885.83 being interest on delayed payments of certificates presented to the Council by the project manager. No satisfactory reason was availed by management for the delay in payment of certificates resulting into these penalties. Had the Council paid the certificates on time, the interest charged on the delay would have been avoided and in the circumstances the Council engaged in payment of avoidable costs of Kshs.57,008,885.83 and value for money may not have been derived.

2. Prepayments, Receivables from Exchange Transactions

The statement of financial position reflects prepayments, receivables from exchange transactions balance of Kshs.231,832,132 as at 30 June 2018. Included in the debtors-examinations net balance of Kshs.18,886,590 reflected in note 45 to the financial statements is ECDE debtors totaling Kshs.27,625,220. This balance includes an amount of Kshs.19,889,300 due from Foundation Institute of Africa relating to unpaid examination fees in 2014. These amounts have attracted penalties amounting to Kshs.16,016,000 being late registration and late payment for the examination that the Council has recognized as contingent assets.

Management has explained that they have released the examination certificates to the institute, it is therefore not clear how it will recover this amount. Consequently, the recoverability of the receivables from exchange transactions balance of Kshs.19,889,300 and the contingent asset of Kshs.16,016,000 as at 30 June 2018 is in doubt.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya National Examinations Council in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Going Concern

The statement of financial performance as at 30 June 2018 reflects a deficit of Kshs.1,065,415,558 (2017: Deficit of Kshs.227,005,443). In addition the statement of financial position as at 30 June 2018 reflects current liabilities amounting to Kshs.3,434,448,377 which exceeds the current assets amount of Kshs.3,277,145,377 resulting in a negative working capital of Kshs.157,303,000. In the circumstances the Council is technically insolvent and cannot meet its short term obligations as and when they fall due. The financial statements have been prepared on a going concern basis assuming the Council will continue to get support from its creditors and the Government.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the basis for qualified opinion section, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgeting Controls and Performance

1.1 Revenue Budget Analysis

The Kenya National Examination Council had a total revenue budget of Kshs.6,950,751,640 for the financial year 2017/2018 against an actual amount earned of Kshs.6,423,846,530 resulting in under collection of Kshs.526,905,110 as summarized below.

Title Details	Final Budget	Actual on comparable basis	Performance Differences	Variance
	Kshs.	Kshs.	Kshs.	%
Recurrent Revenue				
Government Recurrent Grant	4,054,526,351	4,051,470,575	(3,055,776)	0%
Receipt of Examination Fees	1,755,523,711	1,754,068,563	(1,455,148)	0%
Interest Income from Financial Institutions	125,318,088	116,592,536	(8,725,552)	-7%
Other Operating Income	205,383,490	186,714,856	(18,668,634)	-9%
Government Capital Grant	810,000,000	315,000,000	(495,000,000)	-61%
Total Revenue	6,950,751,640	6,423,846,529	(526,905,111)	

The under collection of revenue of Kshs.526,905,110 was due to reduced disbursement of the development grant in 2017/2018.

1.2 Expenditure Budget Analysis

During the year under audit the Kenya National Examination Council had an expenditure budget of Kshs.8,017,771,321 against an actual expenditure of Kshs.7,840,613,384 resulting in net under expenditure of Kshs.177,157,937 as summarized below:

Title Details	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Over Expenditure Kshs.	Under Expenditure Kshs.	Variance %
Personnel Expenses	1,032,935,977	1,049,350,009	16,414,032		-2%
Board Expenses	44,544,000	32,684,036		11,859,964	27%
Administration Expenses	477,972,607	510,977,528	33,004,921		-7%
Examinations Expenses	4,815,324,638	5,127,306,387	311,981,749		-6%
Housing of Staff & Office Accommodation	96,797,667	129,013,830	32,216,163		-33%
Project Expenses	1,937,870	1,261,200		676,670	35%
Increase in Provision of Doubtful Debt	19,889,300	19,889,300	0	0	0%
Increase in Provision of Employee Obligation	(5,455,064)	(5,455,064)	0	0	0%
Depreciation & Amortization	273,129,956	273,129,956	0	0	0%
Taxation	70,000,000	36,104,906		33,895,094	48%
Construction of New Mitihani House	810,000,000	337,325,446		472,674,554	58%
Refurbishment of Leasehold Buildings	12,000,000	1,716,222		10,283,778	86%
Purchase of Vehicles & Other Transport Equipment	33,000,000	32,928,655		71,345	0%
Purchase of Office Furniture	10,000,000	6,533,455		3,466,545	35%
Purchase of Office, General Communication Equipment	153,694,370	105,254,695		48,439,675	32%
Purchase of Computers, Office Printers and Other IT Equipment	152,000,000	181,791,501	29,791,501		-20%
Purchase of Office Fittings	8,000,000	-		8,000,000	100%

Title Details	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Over Expenditure Kshs.	Under Expenditure Kshs.	Variance %
Purchase of Software	7,000,000	801,322		6,198,678	89%
Staff Housing & Car Loan Fund	5,000,000	-		5,000,000	100%
Total Expenditure	8,017,771,321	7,840,613,384	423,408,366	600,566,303	

From the analysis above, it is evident that the Council overspent on their budget by Kshs.423,408,366 on various items. The Council has attributed this to the national need to secure the KCPE and KCSE national examinations. Although the over expenditure was approved by the Council, approval by the National Treasury was not availed for audit review. There is need for the Kenya National Examination Council to re-look at its budgeting mechanism and propose a realistic budget with the available resources to avoid instances of under budgeting.

Similarly, the Council under spent on their budget by Kshs.600,566,303 on various items. This may have a negative impact on implementation of planned activities and service delivery to the stakeholders. There is need for proper planning to avoid instances of idle funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on audit procedures performed. I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Council or to cease operations, or have no realistic alternative but to do so

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions

of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Council to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

15 April 2019