

REPORT OF THE AUDITOR-GENERAL ON DEVELOPMENT BANK OF KENYA LIMITED FOR THE YEAR ENDED 31 DECEMBER 2017

REPORT ON THE GROUP FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Development Bank of Kenya Limited set out on pages 15 to 76, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated and company statements of comprehensive income, consolidated statement of changes in equity and consolidated company statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the consolidated and company financial statements present fairly, in all material respects, the financial position of Development Bank of Kenya Limited as at 31 December 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenya Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for matters described on the Material Uncertainty Related to Going Concern and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Development Bank of Kenya Limited 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.

Material Uncertainty Related to Going Concern

As reported in the previous year, I draw attention to Note 2(a) to the financial statements which describe the Director's application of going concern assumption in preparing the financial statements. During the year the group reported a significant decrease in profitability of Kshs.26.4M down from Kshs.61.7M in the year 2016. The group reported a net current liability position of Kshs.6.9B determined after comparing the current assets and current liabilities. The bank experienced increase in customer savings from Kshs.5.8M in the year 2016 to Kshs.6.2M in the year 2017. Central Bank has advanced the bank Kshs.4.6B to meet its obligation guaranteed on the bank's investment in government securities maturing after one year of an equivalent amount. Since the group is having challenges meeting its short term obligations as and when

they fall due, both short term and long term measures to ensure that the group continues to operate as a going concern have been put in place by management and include the borrowing from CBK option to meet short term needs of the group.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Material Uncertainty Related to Going Concern and Other Matter sections of my report, there were no Key Audit Matters to report in the year under review.

Other Matter

1. Lack of Monitoring of Super User Activities on the Systems

There was no monitoring of super user activities by independent users/system owners on four(4) key systems of the bank at application, database and operating systems levels namely:-

MIPS	System
Payroll	System
Micro banker	OS System
AD	System

It could therefore not be confirmed that there was no abuse of privileges during the year on the user activities due to lack of periodic monitoring.

2. Inadequate Control on Events Logging and Monitoring

It was noted that “Event logging” had been enabled on the network devices yet there was no remote server configured to store the logs on three systems (DBK-SWI; DBK-SW2 and Pfsense-FW). The risk is, in case of a system compromise, lack of audit logs interferes with forensic process and also results in loss of audit data. It could therefore not be confirmed that risky events did not take place during the year.

Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

In preparing the financial statements, management is responsible for assessing the Bank’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 Bank 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 provision of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Bank's 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 Bank's 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 Bank 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 consolidated and separate 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 Group to express an opinion on the consolidated and separate 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the audit, that:-

- I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purposes of my audit;
- In my opinion, adequate accounting records have been kept by the Bank and returns adequate for the audit have been received from branches not visited, so far as appears from my examination of those books; and
- The Bank's financial statements are in agreement with the accounting records and returns.



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

Nairobi

15 May 2018