

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR GENDER AFFAIRS FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of State Department for Gender Affairs set out on pages 1 to 49, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statements of appropriation - recurrent, development and combined 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 audit.

In my opinion, except for the effects described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of State Department for Gender Affairs as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Presentation of the Financial Statements - Unsupported Adjustments

Adjustments were made between the first submitted financial statements and second set of amended financial statements as indicated below;

Item	Balance as per first set of Financial Statements Kshs	Balance as per audited financial statement Kshs	Unexplained Adjustments Kshs
Compensation of Employees – Basic salaries	115,684,205	109,120,755	-6,563,450
Domestic Travel and Subsistence	39,499,988	41,394,453	1,894,465
Printing, Advertising and Information Supplies & Services	1,187,568	767,265	-420,303
Training Expenses	5,660,038	7,540,038	1,880,000
Hospitality Supplies and Services	22,174,038	23,596,124	1,422,086
Office & General Supplies and Services	56,998,709	58,220,509	1,221,800
Routine Maintenance – Vehicles and Other Transport Equipment	2,897,680	2,947,680	50,000
Routine Maintenance – Other Assets	725,903	805,703	79,800
Item	Balance as per first set of Financial Statements Kshs	Balance as per audited financial statement Kshs	Unexplained Adjustments Kshs
Social Security Benefits	3,685,621	6,820,000	3,134,379
Outstanding Imprests	6,739,446	4,040,670	-2,698,776
Comparative Balances			

Proceeds from Domestic and Foreign grants	38,633,262	0	38,633,262
Proceeds from Foreign Borrowings	0	38,633,262	38,633,262
Cashflow statement – Borrowing activities – Proceeds from foreign borrowings and Note 7	0	38,633,262	38,633,262

These adjustments were however not supported and therefore it was not possible to ascertain whether the financial statements present a true and fair view as at 30 June 2018. Further, in Note 7 to the statements, the comparative balance for the proceeds from foreign borrowings is not consistent with the previous year audited financial statements and the balance indicated in Note 3, Proceeds from domestic and foreign grants is not reflected in the statements under review. Under the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be ascertained.

2. Social Security Benefits - Misstatement of Account Balance

Included in the total payments amount of Kshs.3,91,970,274 is an amount of Kshs.6,820,000 disclosed under Note 17 as Social Security Benefits. The amount refers to service gratuity paid to the former Accounting Officer after termination of contract of service vide Circular number OP/CAB.27A of 30 May 2018. According to the appointment letter, the officer was appointed as a Principal Secretary effective from 27 June 2013 to 30 June 2018 (both days inclusive) and hence the payable gratuity was Kshs.6,095,773.

Records held by the Department shows that gratuity paid to the officer amounted to Kshs.7,845,269.00 whereas the financial statements reflect an expenditure of Kshs.6,820,000.00 for the same item. The account balance is therefore understated by Kshs.1,025,269.00. Further, the gratuity payment of Kshs.1,025,269 was wrongly charged to the basic wages.

3. Acquisition of Assets - Misclassification of Expenditure

The statement of receipts and payment reflect Kshs.482,888,200 in respect of acquisition of assets during the year. Included herein is an amount of Kshs.477,000,000 being disbursement to Women Enterprises Fund under Domestic Lending and On Lending. The transfer in the year under review appears as an item of acquisition of assets. Examination of the budget, the trial balance and the payment vouchers relating to the disbursements reveals that the transfers were correctly reflected under Domestic Lending and on Lending but wrongly reflected in the financial statements under Acquisition of Assets. Consequently, the accuracy of the acquisition of assets expenditure of Kshs.482,888,200 could not be confirmed.

4. Cash and Cash Equivalent

Included in the statement of assets and liabilities and statement of cash flows is a bank balance of Kshs.166,852 as cash and cash equivalents. Both the Central Bank Certificate of balance and the bank statement shows a figure of Kshs.986,547 while the cashbook as

at 30 June 2018 reflects a balance of Kshs.166,852. The variance has not been reconciled or explained. Further, receipts amounting to Kshs.139,799 in the cash book comprising of R/D Loan Agencies of Kshs.50, 969.85, unspent balance surrender of Kshs.67, 465.08 and unspent AIE balances of Kshs.21, 364 have not been supported. Consequently, the accuracy of the Cash and cash equivalents balance of Kshs.166,852 as at 30 June, 2018 could not be confirmed.

5. Summary Fixed Asset Register

The Department did not maintain a Summary fixed asset register during the year under review. Therefore, the completeness and accuracy of the fixed asset balance of Kshs.38,692,930 as reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

6. Communication Supplies and Services

During the year under review, the Department procured calling cards for the officers worth Kshs.1,335,000. Out of this payment, airtime worth Kshs.141,000 was procured through temporary imprest in contravention of the regulations on control over imprest. Airtime worth Kshs.1,194,000 for the months of July to September 2017 was done through direct procurement method but the Department has not provided evidence to show that the procurement was reported to the Public Procurement Regulatory Authority as required. Further, out of the total of Kshs.1,335,000 airtime given to officers, airtime worth Kshs.627,000 was provided to officers above their applicable entitlement contrary to regulations. As a result, the propriety of the airtime expenditure of Kshs.1,335,000 and recovery of the overpayment of Kshs.627,000 could not be ascertained.

7. Domestic Travel and Subsistence

Included in the domestic travel and subsistence allowance balance of Kshs.41,394,453 are irregular taskforces allowances payments amounting to Kshs.5,028,000. The officers were paid when performing various tasks that were under their normal work obligations and in line of their duties and hence mandated to perform. Further, the payments were made without necessary authorities from the Accounting Officer as required. Also included in the domestic travel and subsistence is an amount of Kshs.500,000 paid to one thousand participants during a Women Enterprise Fund (WEF) capacity building program as fare refunds. However, it was not explained which criteria was applied to identify the participants and why an expense relating to WEF was included in the Department financial statements and not Women Enterprise Fund's financial statements. In consequence, the propriety of the total expenditure of Kshs.5,528,000 could not be confirmed

8. Outstanding Imprests

The statement of assets and liabilities reflects a balance of Kshs.4,040,670 as outstanding imprest for the year ended 30 June 2018. These imprests should have been surrendered or otherwise recovered in full from the salaries of the defaulting officers with interest. The non-recovery or non-surrender has not been explained.

The figure for outstanding imprests of Kshs.4,040,670 as per the financial statements does not agree with the balances reflected in the trail balance and imprest register of Kshs.6,851,199 and Kshs.11,414,313 respectively. The resultant variances of Kshs.2,810,529 and Kshs.7,373,643 between the three sets of records have not been reconciled. Further, analysis of the imprest register showed that contrary to regulations and procedures, the Department issued officers with multiple imprests amounting to Kshs.10,905,525 and on some instances failed to record in the imprest register the details of imprests holders and the respective amounts issued totalling Kshs.787,182.

In view of the foregoing, the completeness, accuracy and recovery of the outstanding imprests of Kshs.4,040,670 could not be confirmed.

9. Pending Bills

During the year under review the financial statements under Note 28.1 and Annex 1, reflects pending bills amounting to Kshs.222,945,974 as at 30 June 2018. The following issues were noted;

9.1 Procurement

During the year under review the Department contracted various suppliers for supply and delivery of sanitary towels to public primary, special primary and secondary schools at a total cost of Kshs.420,618,059. The contracts were signed on 27 and 28 March 2018 with deliveries expected between 27 April and 15 June 2018. The expenditure on sanitary towels of Kshs.218,421,103 was reported as pending bills and paid in the subsequent financial year, 2018/2019. Further, some contractors were either overpaid or underpaid by Kshs.6,189,081 and Kshs.5,273,863 respectively. The overpayments and under payments were not explained.

9.2 Deliveries

Records held by the Department showed that for the contractors paid, out of the expected quantities of 7,451,146 units only 7,050,460 units were supplied. The under supply of 449,186 units worth Kshs.12,447,742 which are past the due dates of deliveries as per the contracts have not been explained.

In view of the foregoing, the completeness and accuracy of the pending bills balance of Kshs.218,421,103 could not be confirmed as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of State Department for Gender Affairs 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance to the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matters

1. Fuel, Oils & Lubricants - Un-accounted Expenditure

The Department paid for supply of fuel worth Kshs.10,921,980 in the year under review. Although the procurement was done procedurally, the procured fuel was not accounted for in both the fuel registers and the motor vehicles work tickets. As a result, the expenditure of Kshs.10,921,980 on fuel, oils and lubricants has not been accounted for as at 30 June 2018.

2. Progress on follow up of auditor recommendations financial year 2016/2017

In the previous financial year 2016/2017 audit, several issues were raised which formed the basis for the audit opinion. In the year under review, under Note 29 to the financial statements, the status of all these issues remains unresolved yet it is indicated that they were expected to have been resolved by 30 September 2018. The positions of these issues have not changed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

As required by Article 229(6) of the Constitution, based on the procedures performed, 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.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the 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.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained 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 (Cash 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.

In preparing the financial statements, management is responsible for assessing the State Department's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using applicable basis of accounting unless the management either intends to liquidate the State Department or to cease operations, or have no realistic alternative but to do so.

The 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 money is applied in an effective manner.

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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 non-compliance. 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 or to sustain its services. 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 to cease to continue as a going concern or to sustain its services.
- 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 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

5 February 2019