

REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Capital Markets Authority set out on pages 29 to 54, which comprise the statement of financial position as at 30 June 2017, 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, have been audited on my behalf by Mbaya & Associates, 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 financial statements present fairly, in all material respects, the financial position of Capital Market Authority as at 30 June 2017, and of 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 Capital Market Authority Act, Cap 485A of the Laws of Kenya.

Further, 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.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Capital Market Authority in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and 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.

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. These matters were addressed in the context of the audit of the financial statements, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to

the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

	Key Audit Matters	How the Audit Addressed the Key Audit Matter
1.	<p>Revenue Revenue primarily include; capitalization, rights and new issue fees, NSE – transaction fees, application and licensing fees and market development fees. I treated this as a key audit matter due to its materiality and its status as the main income stream of the organization. The risk for interest income from Investor Compensation Fund (ICF) being recognized as revenue for the authority presents a key audit matter due to the financial significance it has in the financial statements.</p>	<p>I addressed the key audit matter by performing the following procedures:-</p> <ul style="list-style-type: none"> ▪ I evaluated internal control activities, and supporting documentation on revenue recognition, and also performed walkthrough procedures of key controls and confirmed that they were adequate and sufficient. ▪ I inspected significant investment securities and investments instructions and verified the ownership. ▪ I tested revenue recognition by comparing individual income items to the related investment security and verified their accuracy and completeness.
2.	<p>Investments of Investors Compensation Fund As outlined in the financial statements, the Authority holds financial investments worth Kshs.1.88 billion which are valued at their fair value. These included marketable securities, and share investments. I consider that valuing financial assets and financial liabilities at their fair value is a key audit matter, given their significance in the financial statements.</p>	<p>I addressed this key audit matter by performing the following:-</p> <ul style="list-style-type: none"> ▪ I obtained the valuation reports of the quoted equities and verified to the prevailing market values as 30th June 2017. ▪ I reviewed transaction reports of the financial investments during the year with the investors compensation fund account to confirm the investment movements
3.	<p>Employees Costs I considered this a key audit matter due to the following:-</p> <ul style="list-style-type: none"> ▪ The employee costs absorb 44% of the total income earned 	<p>My audit procedures covered assessment of the payroll’s internal control environment as well as testing of the operating effectiveness of the related financial controls for accuracy and</p>

	<p>by the Authority.</p> <ul style="list-style-type: none"> ▪ In comparison to the previous year, the employee costs have increased by 22%. ▪ The core mandate of the Authority, as the regulator of the Capital Markets, is personnel driven. 	<p>completeness.</p> <p>I also assessed the recruitment process of the Authority, as well as its staff appraisal process to ensure that the capacity of the Human Resource is sufficient and adequate.</p>
4.	<p>Procurement</p> <p>I considered this a key audit matter due to the materiality of the expenses incurred by the organizations as well as its responsibility as a public entity to ensure compliance with the Public Procurement and Disposal Act and value for money principals were met.</p>	<p>I addressed this key audit matter by inspecting procurement documentation and:-</p> <ul style="list-style-type: none"> ▪ I verified that there was an appropriate level of segregation of duties. ▪ I verified that tender invitation and quotation evaluation processes were performed in a transparent and objective manner. ▪ I analyzed the resultant tender award and noted that the selection process ensured value for money in terms of cost and quality.

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 Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determine 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 corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Authority 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.

Those charged with governance are responsible for overseeing the corporation'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 include 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.

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 Corporation'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 Authority'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 Authority's 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 Authority's 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.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements and internal control of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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

Nairobi

08 January 2018