

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Consolidated Bank of Kenya Limited, set out on pages 17 to 75, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement 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 Deloitte & Touché, auditors appointed under Section 23 of the Public Audit Act, 2015, and in accordance with the provisions of Article 229 of the Constitution of Kenya and 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 Consolidated Bank of Kenya Limited as at 31 December, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Banking Act, Cap 488.

In addition, 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 the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Consolidated 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

I draw attention to note 3 of the financial statements which indicates that as at 31 December 2017, the Bank had a total regulatory capital/risk weighted assets ratio of 5.1% (2016: 8.0%) against a regulatory minimum ratio of 14.5%. The Bank therefore had not met the minimum regulatory capital requirements. As stated in note 3 this condition indicates that a material uncertainty exists that may cast significant doubt on the bank's ability to continue as a going concern. The bank's operation as a going concern is therefore dependent on the injection of fresh capital from the shareholders.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statement of the current period. These matters were addressed in the context of my audit of the financial statement as a whole 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 Matter	How the audit addressed the key audit matter
<p>Provision for impaired loans and advances</p> <p>Significant judgement is required by the Directors in assessing the impairment against loans and advances. Impairment against loans and advances amounting to Shs.458.2 million against an advances balance of Shs.8.9 billion, described in notes 18 and 19, represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the advance in respect of loans that exhibit indicators of impairment.</p> <p>The significant judgements applied in determining the impairment include:</p> <ul style="list-style-type: none"> • the expected realizable value of the collateral securing the advance; and • the probability that an advance will result in loss. <p>Accordingly, the provisions for impaired loans and advances is considered a key audit matter.</p> <p>Refer to note 2 of the financial statements for critical accounting judgements and key sources of estimation uncertainty and notes 18 and 19 of the financial statements for loans and receivables and provision for impairment disclosures.</p>	<p>I have assessed the operating effectiveness of controls in respect of the recognition of impairment losses on loans and advances, specifically over impairment data and calculations. Where impairment was individually calculated, I tested controls over the timely identification of potentially impaired loans.</p> <p>I assessed the adequacy of the provisions by focusing my audit on the following procedures:</p> <ul style="list-style-type: none"> • I tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner. • Where impairment had been identified, I examined the forecasts of future cash flows prepared by the Directors to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where applicable. • I tested the validity and valuation of collateral held on a sample basis. <p>I tested the historical accuracy of the provisions and the assumptions and judgements made by management in arriving at the provisions recorded.</p> <p>In the case of some impairment provisions, I formed a different view from that of the Directors, but in my view the differences were within a reasonable range of outcomes in the context of the overall loans and advances as disclosed in</p>

	<p>the financial statements.</p> <p>I validated the appropriateness of the related disclosures in the notes of the financial statements.</p>
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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 Government 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 of Kenya. 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 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 Bank'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 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 Bank 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 matter 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 interests of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- 1) I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purposes of the audit;
- 2) In my opinion, adequate accounting records have been kept by the Bank, so far as appears from the examination of those books of account; and
- 3) The Bank's financial statements are in agreement with the accounting records.



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

Nairobi

15 May 2018