

REPORT OF THE AUDITOR-GENERAL ON INTERGOVERNMENTAL RELATIONS TECHNICAL COMMITTEE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Intergovernmental Relations Technical Committee set out on pages 1 to 11, which comprise the Statement of financial Assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and Statement of Comparative budget and actual amounts, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report. I have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Presentation of Financial Statements

The Gazette Notice No 5440 on the PFM Act No 18 of 2012 established the PSASB and made the pronouncements on specific categories of entities financial reporting frameworks. In section 2 of the Gazette notice, the Financial Reporting standards under section 2.2.2 state that the Semi-Autonomous National and County Government Agencies shall apply IPSAS Accrual Based standards statements

The Intergovernmental Relations Committee management has prepared financial statements using the IPSAS Cash based standards contrary to the PSASB's pronouncement made via the Kenya Gazette No 18 of 2014. Therefore, the committee has not complied with the recommended reporting framework.

In consequence, the presentation of the financial statements for the year ended 30 June 2018 do not comply with the prescribed financial reporting framework.

2. Accuracy and Completeness of the Financial statements

The Management submitted the first set of financial statements for audit on 28 September, 2018. The management revised the financial statements and submitted the revised statement on 30 April, 2019. However, under Statement of receipts and payment, use of goods and services which was previously reported as Kshs.210,565,513 was revised to Kshs.213,777,723 resulting to an unexplained balance of Ksh.3,212,219 while the

acquisition of assets was revised from Kshs.19,287,560 to Kshs.21,399,710 resulting into an unexplained movement of Kshs.2,112,150.

Under statement of financial assets, bank balances was revised from Kshs.3,515,313 to Kshs.3,061,953 while the receivables changed from Kshs.4,951,000 to Kshs.80,000 resulting to unexplained variances of Kshs.453,360 and Kshs.4,871,000 respectively.

In addition, note 5 and note 6 to the financial statements do not tally or agree to the figures disclosed in the statement of receipts and payments and the statement of financial assets respectively.

Under the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be ascertained.

3. Cash and Cash Equivalents Balances

The statement of financial assets reflects an amount of Kshs.3,061,953 as bank balance. The certificate of bank balance had Kshs.36,377,534 but no bank reconciliation between the two figures was produced for audit verification. Further, the bank reconciliation statements for March, April, May and June 2019 that were availed for audit verification had no supporting details and document for the reconciling items.

Consequently, the accuracy and validity of the cash and cash equivalent balance of Kshs.3,061,952 could not be confirmed.

4. Acquisition of Assets

The Committee did not maintain an updated fixed asset register during the year under review. The Statement of receipts and payments reflects a balance of Kshs.21,399,710 relating to acquisition of assets. However, documents in respect of purchase and payment for the supply of UPS Kshs.837,000 and adjustment(s) of Kshs.2,112,150 were not provided for audit verification.

Under the circumstances, the accuracy and completeness of the acquisition of assets of Kshs.21,399,710 as reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

5. Use of Goods and Services

5.1 Utilities Supplies and Services

The use of goods and services expenditure of Kshs.213,777,723 as shown on the statement of receipts and payments and note 3 to the financial statements reflect Kshs.929,062 in respect of Utilities, supplies and services. However, invoices totaling to Kshs.689,944 which had not been paid, were not disclosed as pending bills. Therefore understating the utilities expenditure.

5.2 Domestic Travel and Subsistence

The use of goods and services expenditure of Kshs.213,777,723 as shown on statement of receipts and payments and note 3 to the financial statements reflects Kshs.60,049,382 in respect of domestic travel and subsistence. However on examination of payment vouchers revealed that payments for Kshs.420,400 paid in relation to motor vehicle repairs have been posted as Domestic travel and subsistence, hence misclassification of expenditure. Further, expenditure totaling Kshs.2,771,474 did not have any supporting documents provided for audit verification.

In addition, a purchase of air tickets amounting to Kshs.4,371,962, was directly procured through single sourcing from one supplier, hence no competitiveness and fairness as required by Public Procurement and Asset Disposal 2015 Section 60. (1).

5.3 Printing Advertising and Information

The use of goods and services expenditure of Kshs.213,777,723 as shown on statement of receipts and payments and note 3 to the financial statements reflects Kshs.18,485,53 in respect of printing advertising and Information services. However, two payment vouchers totaling to Kshs.2,330,300 were captured twice in the ledger hence overstating the account balance. The anomaly has not been corrected or explained.

5.4 Rentals for Produced Assets

The accounts figure for rentals of produced assets is Kshs.49,259,538. However, parking fees of Kshs.942,600 for April to June 2018 was paid but not included in the account balance. This has resulted to an understatement of the expenditure by Kshs.942,600, hence rendering the accounts balance inaccurate.

In addition, the Lease for the rented premises does not show the tenant as IGRTC, but is between the Parklands Plaza Ltd and the Government of Kenya and the lease has not yet been registered by the Ministry of Housing.

Under the circumstance, the completeness and accuracy of the use of goods and services balance of Kshs.213,777,723 as reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

6. Outstanding Previous Year Audit Issues

The following previous year audit issues are yet to be resolved:

(i) Rentals of Produced Assets

During the financial year under review Intergovernmental Relations Technical Committee paid Kshs.51,040,276 in respect of rentals of produced assets as per note 3 of the financial statements. However Kshs.11,610, 934 covering the period July 2016 to September 2016

was paid with a supporting lease agreement. The lease agreement was signed by the tenant in October 2016 and the landlord in November 2016 and was yet to be registered with the relevant government department as at 20 April 2018 it is noted that the lease agreement is neither dated nor registered.

In the circumstances, the validity of the lease agreement could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Intergovernmental Relations Technical Committee 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1. Internal Audit

The Public Finance Act Section 73. (1) (a) requires that every national government entity shall ensure that it complies with this Act and ensure to have appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

During the audit of the year under. It was established that the Intergovernmental Relations Technical Committee did not have an Audit Committee contrary to the regulations cited above. In the circumstances, the accuracy and completeness of the financial statements could not be ascertained

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires 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.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards Accrual

2. Board Members appointment and Contract Extension

The Technical Committee shall be appointed on such terms and conditions as the Summit may determine. It was observed that members of Intergovernmental Relations Technical Committee were appointed by the Cabinet Secretary for Devolution and not by summit as per Intergovernmental Relations Act, 2012 against the provisions of the Act. It was also observed that members were employed on 3 year Non-renewable terms as per their appointment letters but have had various 3-months termly extensions and paid gratuities at the end of this 3 months.

The committee continued to incur expenses on members whose term in office expired on 28th February 2018 which illegally form part of employee costs and gratuity expenses in the financial statements to the tune of Kshs.28,000,000. Consequently, the lawfulness of the expenditure cannot be ascertained.

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 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 Committee's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Committee 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 resources are applied in an effective way.

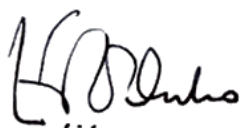
Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Committee monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and 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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of the Committee 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.



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

Nairobi

04 July 2019