REPORT OF THE AUDITOR-GENERAL ON KENYA ACCREDITATION SERVICE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Accreditation Service set out on pages 1 to 21, 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 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 the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Accreditation Service 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 Kenya Accreditation Service Order, 2009.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion, Emphasis of Matter and Other Matter sections of my report, based on the audit 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 Qualified Opinion

1. Non Remittance of Statutory Deductions

The Service had not remitted Pay as You Earn (PAYE) statutory deductions totalling Kshs.12,387,627 to the Kenya Revenue Authority (KRA) as at 30 June 2017. In addition, 6% withholding Value Added Tax (VAT) of Kshs.434,651 had also not been remitted to KRA. Although the management has indicated that it has made efforts to clear the arrears, requirement by KRA obliges all tax agents making payments to persons or suppliers to withhold VAT and subsequently remit the tax proceeds to the Commissioner on or before 20th of every month following the month in which the deduction was made.

Consequently, the Service is likely to suffer penalties and interest as a result of failure to remit the statutory deductions to the Kenya Revenue Authority.

2. Trade and Other Payables from Exchange Transactions

The Service had an outstanding pending bills totalling Kshs.18,502,462 as at 30 June 2017 which includes a balance of Kshs.8,200,190 due to Kenya Bureau of Standards (KEBS). The amount related to services rendered and paid for by KEBS on behalf of the Service before the two institutions were separated. Failure to settle the bills in the year to which they relate deprives the providers of services/goods of their daily livelihood and also distort the budget programmes for the subsequent financial year when they are settled.

3. Long Outstanding Receivables Balance

The statement of financial position reflects under current assets- receivables from exchange transactions a balance of Kshs.26,825,857 which include an amount of Kshs.19,073,014 that have remained outstanding for more than one accounting period. The Service has not incorporated provision for bad debts in its financial statements. This is contrary to one of its significant accounting policies which state that trade receivables are carried at anticipated realizable value and an estimate is made for doubtful receivables based on the review of all outstanding amounts at the end of the year while bad debts are written off when all reasonable steps to recover them have failed.

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

Emphasis of Matter

Material uncertainty related to Going Concern

The statement of financial performance, indicates that the Service recorded a deficit Kshs.7,021,449 (2016 – Deficit Kshs.8,923,202) during the year ended 30 June 2017 and, as of that date, the Service's current liabilities exceeded its current assets by Kshs.4,030,856 (2016-Kshs.5,151,386). These events or conditions, indicate that a material uncertainty exists that may cast significant doubt about the Service's ability to continue as a going concern.

My opinion is not qualified in respect of this matter.

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**.** Except for the matter described in the Basis for Qualified Opinion, Emphasis of Matter and Other Matter sections of my report, there were no Key Audit Matters to report in the year under review.

Other Matter

1. Governance

The Service has four independent directors but none of them is a financial expert contrary to the requirements of the Public Financial Management Reforms (PFMR) 2015 and Mwongozo Code of Governance that at least one Board member should be a financial expert, meaning that he or she has the necessary qualifications and expertise in financial management or accounting and is a bon-fide member of a professional body regulating the Accountancy profession, and in compliance with the requirements thereof.

2. Delayed Contract Execution

The Service's management and a local company. entered into a contract for the supply, implementation and training of SAGE ACCPAC ERP on the 19 April 2013 for a total cost of Kshs.5,975,500. According to the implementation plan, the project was supposed to be completed within eight months from the date of the contract. Management has attributed the delay in contract execution to insufficient funding and inadequate supervision of contract implementation by the responsible entities due to lack of enough staff. Failure to execute the contract within the stipulated duration might result in additional costs.

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 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 Corporation's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern accounting assumption unless the management either intends to liquidate the corporation 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 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 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 Services'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 Corporation'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 Service 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 Services'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.

FCPA Edward R. O. Ouko, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

16 March 2018