

# **REPORT OF THE AUDITOR-GENERAL ON KENYA ACCREDITATION SERVICE FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Opinion**

I have audited the accompanying financial statements of Kenya Accreditation Service set out on pages 1 to 25, which comprise the statement of financial position as at 30 June, 2019, 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, the financial statements present fairly, in all material respects, the financial position of the Kenya Accreditation Service as at 30 June, 2019, 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 and Public Finance Management Act, 2012.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Accreditation Services Management in accordance with ISSAI 130 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.

### **Key Audit Matters**

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the use of public resources, I confirm that, nothing else has come to

my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Non-Compliance with Public Procurement Laws**

#### **1.1. Irregular Payment of Medical Insurance Services**

During the year under review, Management procured medical insurance cover from Jubilee Insurance (Group Life Insurance Scheme) and First Assurance Company at contract sum of Kshs.1,344,426 and Kshs.802,056 respectively. On 21 July, 2018, an amount of Kshs.641,035 was paid as part payment to Jubilee Insurance. However, the contract documents availed for audit review indicated that the Insurance Scheme was to be effective between 15 February, 2018 to 14 February, 2019. The agreement was however, signed on 11 July, 2018, six months after the cover was effected contrary to the Public Procurement and Asset Disposal Act, 2015. The payment was not supported with notification of the award or acceptance letter of offer.

Further, the contract agreement between the KENAS and First Assurance Company Tender No. KENAS/29/2018-2020 was entered into on 23 April, 2018 with the effective date of 2 February, 2018, two and half months earlier. This is in contravention of the Public Procurement and Asset Disposal Act, 2015 Section 135(3) which requires that a written contract shall be entered into within the period specified in the notification but not before fourteen days have elapsed following the giving of that notification, provided that a contract shall be signed within the tender validity period.

#### **1.2. Procurement of Low Value Items**

The Service procured goods/services on diverse dates amounting to Kshs.108,852 in cash. The Service carried out a repetitive and costly procurement cycle which would have been avoided in the purchases of low value items through normal quotation/tendering process which is also tantamount to splitting of request to avoid the tendering process. This is contrary to Section 6(1) of the Public Procurement Regulation, 2015 which requires that a procuring entity shall, pursuant to Section 26(3)(b) of the Act, undertake procurement in accordance with the threshold matrix set out in the First Schedule of the regulations.

#### **1.3. Procurement of Peer Expenses**

Payment of Kshs.285,840 was made to Real Edge Africa Venture vide voucher No.5189 dated 27 February, 2019 for provision of air tickets for peer evaluators having been evaluated the lowest bidder. The evaluators were to arrive in Nairobi on 23 and 25 November, 2018 and depart on 1 December, 2018. The local service order was however raised on 13 December, 2018 two weeks after the event took place between 26 November and 30 November, 2018 thus undertaking the service without a valid contract

contrary to the Public Procurement and Asset Disposal Act, 2015 Section 135(4) which states that “No contract is formed between two persons submitting the successful tender and the Accounting Officer of a procuring entity until the written contract is signed by the parties” followed by issuance of an order.

In the circumstances, Management is therefore in breach of the law.

## **2. Failure to Comply with Requirement to Implement IFMIS and e-ProMIS**

The Service has not linked its Enterprise Resource Planning (ERP) with the Integrated Finance Management Information System as directed through The National Treasury Circular No.19/15 of 18 December, 2015 under Ref. No. DGIPE/A/1/10 Category 4 - Other Projects which states that State Corporations are required to ensure that capital projects are captured in the Plan-to-Budget in IFMIS and e-ProMIS as appropriate and Presidential directive dated August, 2014 which directed that all State Corporations like any other entities comply to full use of e-procurement.

In the circumstances, Management is in breach of the law

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about 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. 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, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1. Imprest Register**

During the year under review, the Service maintained an imprest register that was not properly updated and lacked columns for the imprest due/surrender dates hence making it difficult to determine the actual date for surrendering the imprests.

In the circumstances, the internal controls are weak and may not be effective. Management may not readily identify an imprest holder of a temporary imprest who has not accounted for or surrendered the imprest within 7 working days after returning to duty station.

## **2. Information Technology (IT Environment)**

The Service does not have an approved Information Technology (IT) strategic plan that supports operation requirements of the Service such as training program to build IT capacity, documented and approved processes to manage and upgrade system changes made to all information systems.

Lack of an approved information technology Strategic Plan may expose the Service to the risk of non-alignment of IT operations with the overall business strategy. This may also lead to information security and systems development flaws due to lack of direction on information systems matters.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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.

### **Responsibilities of Management and Board of Directors**

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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Service's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Service or to cease operations.

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.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Service 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 overall 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 audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 applicable 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 Service's ability to continue 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 Service to cease to continue 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 Service 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**18 February, 2021**