

# **REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL BUREAU OF STATISTICS FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Kenya National Bureau of Statistics set out on pages 29 to 62, which comprise the statement of financial position as at 30 June, 2019, and the statement financial performance, the statement of cash flows, the statement of changes in net assets and the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of 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).

### **Basis for Adverse Opinion**

#### **1. Variances Between the Trial Balances and Financial Statements**

The Management submitted a Trial Balance as at 30 June, 2019 in support of the financial statements which reflected balances against Office and General Supplies of Kshs.22,978,515.06 which differed from corresponding balances reflected in the financial statements of Kshs.4,660,615.06 by Kshs.18,317,900 for the year then ended.

The financial statements were subsequently amended and a final trial balance in support of the revised set of financial statement generated. However, the movement of the figures in the trial balances and the ledger balances as stated above were not supported.

As such, the accuracy and correctness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

#### **2. Project Expenses**

##### **2.1 Mobile Devices and Related Accessories**

The statement of financial performance and as disclosed under Note 4 to the financial statements reflects project expenses amount of Kshs.2,454,685,602. This includes population census preparation cost amount of Kshs.1,805,207,409. Included in the population census preparation figure of Kshs.1,805,207,409 are payments of

Kshs.32,033,022 in respect of creation charges of the Letter of Credit representing 20% advance payment.

However, the following anomalies were noted in respect of the creation of Letters of Credits and payment made:

- i. The Letters of Credits were fully funded upfront through payment of equivalent sums to the bank amounting to Kshs.2,689,557,543.69. However, the Bureau went ahead to pay an amount of Kshs.32,033,022.20 as Letters of Credit creation charges by the bank.
- ii. The Letters of Credit created were in favour of two local institutions funded by government which had been single sourced on the basis that the transaction was Government to Government. This implied that The National Treasury /Central Bank of Kenya guarantee would have been adequate to guarantee the payment thereby making the transaction costs of Kshs.32,033,022 an unnecessary charge to public funds.

Under the circumstances, it was not possible to ascertain the accuracy and legality of the project expenses amount of Kshs.2,454,685,602.

## **2.2 Doubtful Payments to Village Elders**

The population census preparation figure of Kshs.1,805,207,409 includes an amount of Kshs.18,509,600 paid out to Village Elders who were involved in the 2019 Kenya Population and Housing Census Cartographic Mapping exercise in all the forty-seven (47) Counties. However, it was observed that there was no official list of the number and names of the officers who participated in the exercise with full details like name, identification number, the division, location, sub-location and the village they represented prior to the beginning of the exercise. It was also noted that the attached payment schedules included names and signatures that could not be validated in any way. Similarly, there was no evidence of attendance for the 3 days they were indicated as paid for.

Consequently, the accuracy, completeness and validity of Kshs.18,509,600. payment could not be confirmed.

## **3. Other Operating Expenses - Training Expenses**

The statement of financial performance and as disclosed under Note 10 of financial statements reflects other operating expenses amount of Kshs.441,281,295 which includes an amount of Kshs.54,031,907 in respect of training expenses. Included in training expense amount of Ksh.54,031,907 are cash payments in the form of imprest to staff amounting to Ksh.30,091,300 which accounts for 60% of the total training

expenditure. Management did not provide explanations on why the institutions including hotels used for training were paid through imprests and not directly under normal procurement processes.

Further, examination of vouchers on hire of conference facilities, revealed that payment was made for the number of people booked as opposed to the number of attendees. A closer examination of the attendance registers revealed that the number of people who attended the conferences were less than those who were booked resulting to overpayment of Kshs.1,369,800 for hire of conference facilities.

Consequently, the accuracy, completeness and validity of the payments of Kshs.54,031,907 in respect of training expenses could not be confirmed.

#### **4. Cash and Cash Equivalents**

##### **4.1 County Bank Accounts**

The statement of financial position and as disclosed under Note 12 of the accounts reflects cash and cash equivalents of Kshs.4,622,304,050. Included in this amount is cash amounting to Kshs.6,017,635.35 in respect of cash recalled from the 47 County bank accounts to the KCB Development Bank account. No bank reconciliations and cash book from all the 47 County accounts were provided for audit verification.

Consequently, the accountability and utilization of the funds disbursed to the 47 Counties could not be confirmed.

##### **4.2 Non- Disclosure of Special Census Bank Accounts Balances**

The statement of financial position and as disclosed under Note 12 to the financial statements reflects cash and cash equivalents balance of Kshs.4,622,304,050 which excludes Kshs.47,605,315 special census bank accounts in 47 counties wrongly classified as debtors. Consequently, the bank balance of Kshs.4,622,304,050 is understated by Kshs.47,605,315 while debtors are overstated by the same amount.

Under the circumstances, the accuracy of cash and cash equivalents balance of Kshs.4,622,304,050 as at 30 June, 2019 could not be ascertained.

#### **5. Imprest Management**

##### **5.1 Long Outstanding Staff Debtors**

The statement of financial position reflects an amount of Kshs.4,506,252,401 under receivables. This includes Kshs.493,856,282 in respect of staff debtors in form of staff imprests. A review of staff imprest aging analysis revealed that imprest advanced to staff

amounting to Kshs.471,057,210.08 had remained outstanding beyond the statutory surrender date.

Management has not provided explanations for to the non-recovery of the outstanding imprests.

## **5.2 Multiple Imprest**

The staff debtors balance of Kshs.493,856,282 and as disclosed under Note 14 to the financial statements includes an amount of Kshs.388,954,579.08 advanced to three hundred and eight (308) staff all of whom had multiple imprests contrary to Regulation 93(4)(b) which provides that before issuing temporary imprests under Paragraph (2), the Accounting Officer shall ensure that the applicant has no outstanding imprests. Further, outstanding imprests of Kshs.252,774,748 was held by thirty-nine (39) staff all of whom held multiple imprests raging from Kshs.1.4 million to Kshs.13.4 million. Management has not provided explanations for failure to recover the outstanding imprests.

## **5.3 Outstanding Census Imprests**

The statement of financial position and as disclosed under Note 14 to the financial statements reflects a balance of Kshs.4,506,252,401 in respect of the receivables. Included in this amount is Kshs.4,438,906 in respect of the 2009 Census exercise that has remain outstanding to date. The recovery of this debt is doubtful and no provision has been made for the debt in the financial statements.

## **6. Provisions for Bad Debts**

The statement of financial position and as disclosed under Note 14 to the financial statements reflects a balance of Kshs.4,506,252,401 in respect of the receivables. This included sundry debtors amount of Kshs.23,855,025 out of which Kshs.23,433,873 was in respect of an Enterprise Resource Planning System (ERPS) development debtor which was the subject of court case. The debt has remained outstanding for a period of over five years. Management has not made provisions in the financial statements in respect of this amount whose recovery is uncertain.

## **7. Prior Year Matters**

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matter as provided by the Public Sector Accounting Standards Board templates.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya National Bureau of Statistics 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 adverse audit 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. 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, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Adverse Opinion sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Lack of Competitive Bidding in Procurement**

The Bureau procured consumables amounting to Kshs.104,519,803.20 to facilitate implementation of the preparatory activities and actual enumeration of 2019 Kenya Population and 2019 Housing Census Cartographic Mapping Exercise without a competitive bidding process during the year under review. Management has not provided explanations on why single sourcing was used in the procurement.

#### **2. Office Partition Space at Real Towers - Upper Hill Nairobi**

The Bureau contracted various service providers for air conditioning and plumbing, cabling, electrical and partitioning all costing Kshs.259,016,232. However, the Bureau paid Kshs.301,555,495 being Kshs.194,625,991 for works, Kshs.105,300,000 rent and Kshs.1,629,500 as taskforce allowances for leased offices resulting in overpayment of Kshs.42,539,263, Further, the Bureau had budgeted an amount of Kshs.120,000,000 for the office partition. The payment of Kshs.301,555,495 resulted in an over expenditure of Kshs.181,55,491. Management has not provided approvals or explanation for the over expenditure on the budget.

Consequently, Management was in breach of law.

#### **3. Irregular Expenditure on Car Hire Services**

The Management contracted a car hire services firm to provide services to the Bureau on 27 April, 2017 for a period of one year. The contract was extended for a further one year upon expiry without following due process. This was notwithstanding the supplier's own admission for lack of capacity to deliver the service on 13 June, 2018. To bridge the

supplier's capacity gap, Management informally agreed with the contracted supplier for the car hire services to be subcontracted to other service providers. However, although the subcontractor was to prove ownership of the vehicles, the logbooks provided were in the names of other individuals other than the subcontractor. It was therefore not possible to ascertain that the service delivery and the payments of Kshs.33,953,672 were made to the right and bonafide subcontractor.

#### **4. Irregular Procurement of Rental Space**

The Bureau leased office space at a total rent of Kshs.105,300,000 inclusive of service charges per year from January, 2018. The landlord offered a 90-day grace period from the signing of letter of offer to allow for preparations of the space prior to occupation. The 90-day grace period was not sufficient for procurement process for the Contractor and completion of the works to ready the building for occupation. As result of a lease agreement that was skewed in favour of the landlord. The Bureau paid rent for the period between October, 2017 to June, 2019 of Kshs.163, 083,000 while the building remained unoccupied with no value for money achieved hence misuse of public resources.

Consequently, value for money was not realised on the payment lease amount of Kshs.163,083,000 between October, 2017 and June, 2019 when the premises had not been occupied and the Bureau was in breach of 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and overall governance were not effective.

#### **Basis for Conclusion**

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 overall 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 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 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 Bureau'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 liquidate the Bureau 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.

Those charged with governance are responsible for overseeing the Bureau's financial reporting process, reviewing the effectiveness of how the Management 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**

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 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 Bureau'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 to cease to continue to 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 Bureau 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**

**16 August, 2021**