

REPORT OF THE AUDITOR-GENERAL ON KENYA REVENUE AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Revenue Authority set out on pages 29 to 51, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amount 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 effects of the matter 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 Revenue Authority as at June 30, 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 Revenue Authority Act, Cap 469 Laws of Kenya.

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

1.0 Property Plant and Equipment

The statement of financial position reflect property plant and equipment values of Kshs.30,478,727,000 as confirmed in Note 8 to the financial statements. Included in this figure is Kshs.24,540,066,000 in respect of revalued land and building. The revaluation was done in June 2017 by the Authority internal professionals using the market comparison approach. A review of the revaluation of property, plant and equipment report revealed the following anomalies:

- The minutes of the Board meeting approving the revaluation of the assets has not been presented for audit verification.
- The effective date of the revaluation has not been indicated in the revaluation documents
- The revaluation report reflected values of Land and Building closing balance of Kshs.24,106,581,000 while the financial statement reflects values of

Kshs.24,540,066,000. The difference of Kshs.433,385,000 between the two set of figures has not been explained.

2.0 Work in Progress

Note 8 to the financial statement reflects Kshs.3,723,041,000 as Work in Progress as 30 June 2017. However, the balance of Kshs.3,723,041,000 does not include Kshs.1,639,138,000 of One Stop Border Post (OSBP) works that were in progress, completed and were included in the final land and building revaluation report as indicated in the table below:

Station	Description	Amount (Kshs)
Busia OSBP	Office Block	41,158,083
Malaba OSBP	Office Block	90,532,134
Isebania OSBP	Office Block	206,015,201
Taveta OSBP	Office Block	25,662,776
Namanga OSBP	Office Block	670,000,000
Moyale OSBP	Office Block	605,778,891
Total		1,639,138,085

In addition during the financial year 2016/2017 Kenya Revenue Authority spent a total sum of Kshs.777,139,000 on various projects. However, the Authority has failed to present for audit verification payment vouchers to support the expenditure of Kshs.777,139,000. Therefore, the work in progress of Kshs.3,723,041,000 cannot be confirmed correct.

3.0 Cash and Bank Balances

The cash and bank balances reflected in the statement of financial position of Kshs.6,524,721,000 is not in agreement with the cash and bank balances analyzed from the authority records of Kshs.6,603,424,000 as indicated below: -

	Amount in Financial Statements	Verified Amount	Variance
Cash at hand	782,617	288,476	494,142
Cash at bank	1,636,379,641	1,730,651,388	(94,271,746)
Fixed Deposits	1,450,225,968	1,435,151,271	15,074,696
Treasury Bills	3,437,333,750	3,437,333,750	-
Total	6,524,721,000	6,603,424,000	(78,702,000)

The difference of Kshs.78,702,000 has not been explained by the authority management. Further, the Authority did not disclose in its financial statements two bank accounts held at Kenya Commercial Bank- Wajir, account no. 1135877165 and National Bank-Dollar A/C-KESRA- Nairobi account No. 0202015000900 with balances of Kshs.50,345 and

USD 4,195.50 respectively. The non-disclosure of the two bank accounts has not been explained nor were their proceeds part of the closing cash and bank balances.

4.0 Debtors

4.1 Other Agency Debtors

The statement of the financial position and as confirmed in Note 10 to the financial statements reflect debtors and receivables of Kshs.553,968,000 which include other agency debtors of Kshs.271,228,000. Included in total accrued income shown in the ledger is Kshs.30,324,284 relating to other income. The balance reflected in the financial statement as other agency debtors of Kshs.271,228,000 is overstated by Kshs.30,324,284 as tabulated below.

Date	Description	Journal Voucher Number	Amount (Kshs)
18/10/2016	Document Processing Fees	5259	6,032,782
	Sale of Tamper proof seals	5259	2,555,948
	Miscellaneous income(Customs)	5259	2,612,312
	Public Overtime	5259	1,000,891
	Miscellaneous Income (Domestic)	5259	2,585,992
24/01/2017	Document Processing Fees	11142	6,510,994
	Sale of Tamper proof seals		2,379,379
	Miscellaneous income(Customs)		562,898
	Public Overtime		629,102
	Miscellaneous Income (Domestic)		1,888,500
21/4/2017	Document Processing Fees	17732	2,007,004
	Sale of Tamper proof seals		789,651
	Miscellaneous income(Customs)		508,033
	Public Overtime		260,798
Total			30,324,284

4.2 Long Outstanding Staff Debtors

During the year 2015/2016 the Authority had an Outstanding Staff debtor's balance of Kshs 81,245,000 which included staff travel imp-rest amounting to Kshs.50,005,708. The closing balance of Kshs. 50,005,708 was recorded in Company A Kshs.44,517,778 and Company B Kshs. 5,487,930 respectively. A review of debtors in 2016/2017 financial year reveals that the long outstanding staff travel imp-rest debtors for company Amounting to Kshs.2,248,829 had been excluded from the staff debtors' balances of Kshs 122,923,000 in the financial statements as confirmed by Note 10 to the financial statement and as listed below

UNVERIFIED DEBTORS AND NOT IN 2016/2017 Financial Year Schedule of

Travel Imp-rest Debtors

Date	P/Number	Name	Amount
6/29/2016	20742	FRANCIS KAMAU	10,400.00
7/30/2015	103	HADI ABDULLAHI	31,200.00
5/23/2016	15635	STEPHEN WAFULA	15,750.00
12/8/2015	7918	CHARLES E ONDUSO	105,320.00
6/3/2016	18782	GEORGE MUNENE	24,600.00
5/20/2016	17086	LAVEEEN MUTIRA	5,000.00
6/19/2015	16127	JAMES MURAGE	100,000.00
12/31/2011	70006	PCV 303 C. KIPROTICH	6,830.00
6/9/2016	17398	JAMES KIRIMI	44,800.00
6/16/2016	17784	EVALINE ROTICH	31,200.00
6/29/2016	19126	KARIUKI NJAMWITHA	100,000.00
8/19/2015	2272	MERCY M MBITHI	310,752.00
6/17/2016	19047	LATIFA OMAR	41,234.05
9/9/2015	4190	JOHN KAMAU KAMAU	317,859.75
2/9/2016	DIFF	ROUNDING OFF	(61.60)
4/11/2016	14587	SIMON ONYANGO	31,490.00
10/9/2002	CHQ.1743	CHQ.1743-M.H.MASOUD	31,500.00
2/5/2016	10201	ISAAC KARANGI	33,600.00
4/28/2016	15188	ANGELINA S. MBANGULA	33,800.00
3/1/2016	10374	KEVIN GUSERWA	40,980.00
5/16/2016	15474	KENNETH MBURU	42,000.00
6/13/2016	17612	ANN KAMANDA	42,000.00
6/29/2016	19097	NICHOLAS N MAYENZE	44,800.00
9/18/2015	2787	JOSEPH TONUJ	46,800.00

3/16/2016	12121	JANUARY WAMBUA	50,400.00
5/16/2016	15474	CAROL B N MITAU	67,200.00
5/16/2016	15474	ESSIE GIKUHI	70,000.00
7/5/2015	13558	SAMUEL KARIUKI	87,100.00
6/6/2016	17004	WANGUI MWANIKI	100,800.00
5/26/2016	16185	BENSON OLANDO	106,200.00
9/19/2011	3453	SEP\$018EUGENE WALUVENGO	275,275.60
		Total	2,248,829.80

5.0 Income

5.1 Capital Grants

The statement of financial position and as confirmed by Note 18 to the financial statement indicates capital grant by the National Treasury and other donors of Kshs 18,249,137,000. The National Treasury and other Donors paid Kshs.1,814,647,000 directly to suppliers for goods, works and services towards projects undertaken by the Authority. The amounts have not been disclosed in the financial statement. The non-recording and non-amortization of the benefits accruing from donated assets and services may lead to understated assets and revenues in the financial statements. Further the management has failed to provide a full list of all completed donor funded projects and their total costs. Disclosures in the notes to the accounts as required by paragraphs 106 and 107 of IPSAS 23 has not been adhered to. Therefore, the grants have been understated by Kshs.1,814,647,000.

5.2 Commission Income

The statement of financial performance and as confirmed in Note 4a to the financial statements reflect commission income of Kshs.1,785,534,000. Excluded in this is income on commission earned on collection of standards levy, concession fees, insurance deduction commission and merchant superintendent shipping levy (MSSL) on behalf of Kenya Bureau of Standards, Kenya Airports Authority, various insurance companies and Kenya Maritime Authority respectively. The total commission earned from the four organizations but omitted from the statement of financial performance is Kshs.11,718,748, Kshs.2,546,202, Kshs.5,062,051 and Kshs.26,552,285 respectively. Management has not explained the reasons for this omission.

5.3 Deferred Grant Income Amortization

The statement of financial performance reflect deferred grant income amortization of Kshs.82,085,000 whereas the amount computed during our audit verification for the

year is Kshs. 69,594,000 resulting to a misstatement of the grant income by Kshs. 12,491,000 as shown below

Project	Year	Cost	Accum. Depreciation	Balance
World Bank Funded Projects-Power back Up		135,146,034.00	101,359,525.50	33,786,508.50
World Bank Funde Projects	2011/2012	76,791,446.00	49,194,520.09	27,596,925.91
World Bank Funde Projects	2012/2013	21,895,000.00	13,684,375.00	8,210,625.00
Totals		233,832,480.00	164,238,420.59	69,594,059.41

5.4 Unrecognized Deferred Grant Income

In addition the Authority received assets as donations during the year and the previous years which were not disclosed during the year under review. Some of these assets not disclosed but identified are: - three (3) Scanners donated by China Government in 2015/2016, five motor vehicles (5) donated by JICA and an ERP system from JICA. The deferred income associated with the use of these assets has not been recognized in the financial statement under review. Therefore deferred income recorded in the statement of financial performance of Kshs 82,085,000 cannot be confirmed.

6.0 Variances between the Financial Statements, Ledger and Trial Balance Figures

Comparison of the financial statements figures in the 2016/2017 financial year against the ledger and trial balance figures of the agency for the same year revealed differences in some specific items as indicated below.

	Financial Statement balance	Ledger Balance	Trial Balance
Item Description	(Kshs)	(Kshs)	
Designated Fund	62,248,174	202,705,923	62,248,174.30
Consultancy	135,930,478	389,477,271	135,930,478.19
Work in Progress-SAP	3,723,041,247	5,480,542,971	3,723,041,247.03
Travelling & Accommodation	982,586,232	1,167,431,333	982,586,232.47
Printing & Stationery	37,834,904	36,323,403	37,834,904.28
Computer Expenses	580,145,509	282,082,690	580,145,509.94
Training Expenses	300,766,336	284,299,636	300,766,367.05

Miscellaneous Income	76,120,000	56,170,328	61,377,718
Staff cost	14,070,197,000	14,070,196,570.03	13,342,182,053

These variances have not been explained or reconciled. Therefore the figures in respect to the respective items reflected in the financial statements cannot be confirmed.

7.0 Duplicate Invoices

Included in the trade creditors and accounts payable of Kshs.1,603,725,000 as indicated in Note 15 is local creditors of Kshs.937,810,367 which includes duplicate invoices of Kshs.50,927,000. Therefore the local creditors balances as 30 June 2017 is overstated by Kshs.50,927,000. The duplication of invoices which lead to overstating the accounts payable balance by Kshs.50,927,000 has not been explained and therefore the total creditor and payable balances of Kshs.1,880,766,000 reflected in the statement of financial position cannot be ascertained.

7.0 Accrued Expense

Avic International and Kenya Revenue Authority signed a two year scanners maintenance contract on 18/2/2016 at a contract sum of USD 1,458,607.50 annually. The maintenance cost per year is Kshs.151,275,000 but the amount accrued as expenses for the financial year under consideration is Kshs.177,574,000 as indicated in Note 7(a). The scanner maintenance expenses therefore were overstated by Kshs.26,299,000. Further, the accrued scanner maintenance expenses was not reported as a liability in the financial statements at the end of the financial year 2016/2017. Therefore the deficit/surplus for the year is understated by Kshs.26,299,000.

8.0 Insurance Expenses

During the year under review, included in insurance expenses of kshs.69,178,000 as shown in Note 5(b) is a total of Kshs.8,240,000 insurance premiums paid to Miran Insurance Brokers Ltd and APA Group Life Insurance Company for the financial year 2015/2016 but charged to 2016/2017 financial year.

Further, insurance compensation received of Kshs.1,7954,887 was erroneously included as premiums paid during the financial year. Therefore the insurance expenses of Kshs.69,178, 000 cannot be confirmed correct.

9.0 Unsupported Payments

9.1 Lake Naivasha Simba Lodge

During the financial year 2015/2016 the Authority incurred training expenses of Kshs.300,766,000 as reflected in Note 5.b to the financial statement. Included in the training expenses of Kshs.300,766,000 is an expenditure of Kshs.6,941,000 toward provision of conference facilities for top management meeting held on 13 April 2016 at Lake Naivasha Simba Lodge. The payment was made on 29 July 2017, vide voucher no. 356/16/17 and invoice No. 2016060104. The list of participants was not signed by all participants and therefore we could not verify the propriety of this expenditure. Further this expenditure was incurred on April 2016 and therefore relates to 2015/16 financial year.

9.2 Unvouched Expenditure

Included in computer expenses of Kshs.580,146,000 as indicated in Note 5 b to the financial statement is an expenditure of Kshs.127,781,000 whose payment vouchers were not availed for review and audit. Therefore the authenticity of computer expenses of Kshs.580,146,000 would not be confirmed correct.

10.0 Motor Boat Expenses

In the statement of financial performance and as confirmed by Note 7 to the financial statements reflects maintenance expenses of Kshs.395,009,000 in respect of motor boat. The motor boat expenses include Kshs.15,246,000 in respect of motor boat maintenance expenses. The motor boat maintenance expenses of Kshs.15,246,000 would not be confirmed to be expenses for 2016/2017 since only Kshs.5,866,959 was verified. The difference of Kshs.9,378,860 is an expenditure for the period 2015/2016 and therefore the expenditure for 2016/2017 is overstated Kshs.9,378,860.

11.0 Medical Advances Write Off

The Board in its 253 meeting held on 31 January 2017, approved the write off of medical advances/balances of Kshs.3,262,700 made up of Kshs.931,045 relating to former employees who are now deceased and Kshs.2,331,654 relating to former employees who exited the organization before receipt of invoices and recovery of bills were done. The write-off was irregular since there was no approval from the Cabinet Secretary in charge of The National Treasury to write off the debt as required by the Public Finance Management Act 2012.

12.0 Leave Provision

During the financial year 2015/2016 audit the Authority was advised not to accumulate leave day beyond what is allowed by the human resource policy. However it was observed that the recommendation has not been implemented and the Authority continues to provide for the unjustified leave days whose value is currently Kshs.185,454,748 at the end of the year as indicated in Note 16 to the financial statement.

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

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 matters described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Top Management Payroll System

In 2015/2016, the Authority contracted Deloitte and Touche to offer Payroll services through their Business Services Department Company, Livingstone Registrars Limited. This payroll service was to process salaries and remuneration for thirty two (32) top management staff. Livingstone Registrars limited role was to receive funds from the Authority make arrangements to transfer the net pay to the employees' bank accounts and make payments on behalf of the Authority for statutory and non-statutory payments. The contract sum for the services was an annual charge of Kshs.7,500 and a Routine Charges of Kshs.405,000. The contract was later changed to annual charge of Kshs.7,500 and a routine charge of Kshs.513,000 annually. In addition, every new employee was to be registered at cost of Kshs.1,500.

The contract was irregular on the basis of the following:-

- The services were single sourced.
- No notice inviting expression of interest had been provided by the Authority to confirm that due process was followed.
- No clear terms of reference had been provided by the Authority on which the consultant was to operate.
- The need assessment was not clearly identified so as the services sourced from Livingstone Registrars limited would address the gaps identified. The Authority currently has in place Memory Payroll system which maintains a General Payroll for 3,200 employees. The system is able to generate all payroll reports including pay-slips, SFI files for Bank payments, Payroll control summaries, statutory and other deduction reports, P9 reports etc. Therefore, the Memory Payroll system is

sufficiently serving the authority with no fail reports made and thus no gaps were noticed to be filled by another payroll system.

In 2016/2017 financial year, the Authority continued to use the Services of Livingston registrar even after procuring a new SAP system. So far Kshs.53,117,129 has been paid to date to Deloitte & Touche since the company was contracted in 2006. The payment of Kshs.53,117,129 has not been justified.

2.0 Failure of Commissioner General to proceed on Terminal Leave.

The Commissioner General's new contract of service was renewed by the Board of Directors for a further three (3) year term beginning 4 March 2015 and was expected to end on 4 March 2018. The Board did not recommend the Commissioner General to proceed on terminal leave beginning 4 September 2017 pending his retirement in accordance with Government Circular Ref: OP/CAB.9/9A(c) dated 23 November 2010. A requirement which has not been acted upon to date.

3.0 Appointment of Commissioner of Intelligence and Strategic Operations

On 17 November 2016, the Authority advertised the position of the Commissioner Investigations and Enforcement in the local dailies and the Authority's website with a closing date of 2 December 2016. Forty-nine (49) applications were received in response to the advertisement for the position. Five candidates were shortlisted for interview by the Staff Committee of the Board. The staff Committee carried out oral interviews on 7 March 2017 and recommended three candidates for interview by the Board of Directors.

The Board Minute No. 2761.5 indicates how the Board scored the candidates as indicated below: -

Rank	Candidate Prior Position	Candidate Name	Marks
Position 1	Chief Manager	David S.K.Yego	77
Position 2	Deputy Commissioner	James G. Mburu	75.3
Position 3		Miriam Gaituri	53.3

The Board resolved to appoint David S. K. Yego as the Commissioner Investigations and Enforcement with effect from 22 March 2017.

The Board further appointed one of the candidates of the position of Commissioner Investigations and enforcement to head a new role as commissioner and his deployment was to be deliberated by the Board on 28 March 2017.

According to Minute No. 2773, the Commissioner General made an elaborate presentation outlining the Risks facing the Authority and emphasized the need for the Authority to have a proactive stance towards intelligence management.

The Board in their Minute No. 2773:5.0 recommended that the existing Ethics and Intelligence position be restructured and its mandate expanded. The position be re-titled as Intelligence and Strategic Operations. The Board in their minute No. 2773:5.0 appointed a Commissioner, Intelligence and Strategic Operations.

The appointment of the Commissioner, Intelligence and Strategic Operation is in contravention of the authority established regulations as follows:-

- The Position of Commissioner-Intelligence and Strategic Operation was not in the Authority's establishment and the appointment preceded creation and reorganization of the Ethics and Intelligence department mandate.
- The position was not advertised both internally and externally and therefore disadvantaged other would be applicants for the position. The commissioner Intelligence and Strategic Operation has continued to enjoy the role of the Commissioner and has been paid Kshs.880,000 over and above his substantive position remuneration as Deputy Commissioner. The procedure for recruitment followed and the extra salary already paid on promotion is irregular.

4.0 Appointment of a Human Resource Expert

The Authority contracted Working Smart Limited for purposes of carrying out online Aptitude Test Services for Graduate trainees' recruitment and establishment of a Psychometric Center for the period 2008-2014

An audit of this contract has further revealed the following issues with the above consultant: -

- The Authority engaged Working Smart Limited a company whose registration and existence could not be established at the time of Audit.
- The Authority stopped engaging Working Smart Ltd as an entity and chose to engage one of the directors of Working Smart Ltd on the following assignment: -
 - 1) To set up a psychometric assessment centre (PAC) and implement a mentoring programme.
 - 2) The director was contracted as a technical manager as per the letter Ref No: KRA/Conf /5/1003/31 dated 01/09/2008 for 6 months at a rate of Kshs.225,000 per month a position which did not exist in the Authority establishment then.
 - 3) On 8 August 2008, technical manager operating as human resource consultant was contracted to perform: A Psychometric Test to 159 clerical staff and 51 office assistants, test analysis and present a report at a cost of Kshs.250,000 after out

competing other human resource recruiting firms, one of which quoted Kshs.482,560 for the service and another whose quote was not disclosed.

- 4) On 10 March 2009 the technical manager initial contract of 1 September 2008 was extended for three (3) Months vide letter Ref No: KRA/Conf/5/1003/31 at Kshs.225,000 per Month. As per letter dated 25 January 2010 Ref No: KRA/Conf/5/1003/31, a proposal was made to pay the technical manager for four months from 4 August 2009 to 4 November 2009 for a task without specific deliverables at the rate of Kshs.225,000 per month.
- 5) In a letter Ref: KRA/5/1003/90 dated 25 Jan 2010, the technical manager was reappointed for another 4 Months for the same contract at the rate of Kshs.225,000 still without specific deliverables.
- 6) The contract was extended by a letter Ref: KRA/5/1003/90 dated 09/06/2010 for another four months at the rate of Kshs.225, 000 still without specific deliverables.
- 7) The Authority engaged the technical manager to carry out a Psychometric Test for Senior Deputy Commissioners for Kshs.272, 000
- 8) On 27 January 2015, the Authority engaged the technical manager now as a Human Resource Expert to support the human resource division in delivering key assignments at Kshs.25,000 per day for six (6) months with effects from 1 February 2015
- 9) On 01 February 2015 vide letter Ref: KRA/5/1003/35, the Human Resource Expert was engaged to undertake a Psychometric testing at Kshs.15,000 per person the cost which would include administration of the Tests, report preparation and feedback.

Based on the above analysis the Human Resource Expert was and is still engaged as an individual and not as Working Smart Ltd and all payments advise are issued to the expert. Under the circumstances, the following conclusions are made –

- That the consultancy services were single sourced.
- No notice inviting expression of interest had been provided by the Authority.
- The Authority had been requested to provide the necessary supporting documents to the contract but to no avail with regard to both Financial and Procurement engagement.
- The Contract between Kenya Revenue Authority and the Human Resource Expert is irregular and has resulted to a payment of Kshs 6,735,570 in the financial year 2016/2017 alone.

Responsibility 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 (IPSAS) 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 Authority'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 management either intends to liquidate the Authority 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 7 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Authority'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 7 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 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.

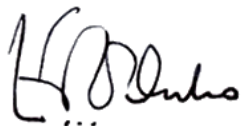
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 giving an assurance on the effectiveness of the Authority'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 Authority'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 Authority 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 Authority 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
AUDITOR-GENERAL

Nairobi

02 July 2018

