

REPORT OF THE AUDITOR-GENERAL ON MICRO AND SMALL ENTERPRISES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Micro and Small Enterprises Authority set out on pages 21 to 45, which comprise the statement of financial position as at 30 June 2018, and 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 Micro and Small Enterprises Authority as at 30 June 2018, 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 Micro and Small Enterprises Authority Act, 2012 of Laws of Kenya.

Basis for Qualified Opinion

1. Property, Plant and Equipment;

As reported previously, the property, plant and equipment balance of Kshs.55,181,414 as at 30 June 2018 excludes undetermined value of properties in 154 industrial development centres. Further, some other non-current assets of undetermined value are held by the Authority for transfer to various Constituency Industrial Development Centres (CIDCs). In addition, the list, location and the value of the assets meant for onward transfer to CIDCs as well as the signed report of the Parent Ministry delinking the centres from the Authority were not availed for audit review. Apparently, the management has not taken stock of all its land, buildings and other properties and valued them to establish their accounting treatment in the Authority's books of account.

2. Trade and Other Receivables

Note 10 of the financial statements as at 30 June 2018 reflects trade and other receivables figure of Kshs.10,398,752 which includes Kshs.8,028,750 indicated as receivables from the Parent Ministry which has not been supported. The financial statements of the Parent Ministry had not recognized pending bills as at 30 June 2018. In the circumstances, it was not possible to accuracy of Kshs.8,028,750.

3. Non-Compliance with Procurement Laws and Regulations

As previously reported, the Authority procured and paid for a machine (Bar-Sheer) for use at the common user facility at Kariobangi Center of Excellence from a local company at

a cost of Kshs.6,200,000 without any formal contract. The tender committee minutes of 17 June 2015 indicated that the Authority used “request for quotation” as the procurement method. However, the Public Procurement and Disposal (amendment) Regulations, 2013 requires the maximum level of expenditure under request for quotation method of procurement at Kshs.2,000,000 and a minimum of Kshs.6,000,000 under national open tender. Further, the Authority did not enter into a formal contract with the supplier considering the complexity and significant cost of the machine. Although the machine was delivered in December 2015 and the supplier having been fully paid, by the time of audit inspection in January 2019, the machine was still lying idle and was yet to be commissioned.

Further, information available indicated that the Authority was still waiting for the supplier to configure the machine before it is commissioned. Therefore, the Authority failed to comply with the procurement laws and regulations and further failure to commission the machine is an indication that the Authority did not obtain the value for money from the purchase of the machine costing Kshs.6,200,000.

4. Payment for Security Bills

As previously reported in 2014/2015, the parent Ministry transferred to Constituency Industrial Development Centres (CIDCs) liabilities of Kshs,105 million which had accrued up to 31 December 2014 and further instructed the Authority to make payments of Kshs.50 Million before the contract to transfer CIDCs was signed between the Ministry and the Authority. It was, however, noted that the management approved the payment of security services to various security firms totalling Kshs.47,460,760 before the CIDCs were handed over to the Authority by the Ministry and before the handing-over agreement between the Authority and the parent Ministry was signed on 29 January 2015. The outstanding balance of security services as at 30 June 2015 amounted to Kshs.57,539,240. Clause 5(i) of the signed contract had clearly indicated that the Ministry had undertaken to pay all the pending and current bills relating to security services for the existing contracts up to 3 December 2014 before handing over to the CIDCs but the management went ahead and paid the bills owed by the Ministry before signing the agreement and yet there was no provision for payment of security services in the budget. During the year ended 30 June 2016, the Authority made further payments totalling Kshs.22,493,912 leaving a balance of Kshs.38,980,528 as at 30 June 2016. However, this amount of Kshs.22,493,912 includes Kshs.1,628,000 paid to two local firms which were not included in the Authority’s outstanding bills statement as at 30 June 2015. The anomaly indicates that the outstanding creditors balances were not reconciled prior to the payments. In addition, some of the payments were supported by undated invoices and photocopies of documents while others were new invoices raised during the year 2015/2016 purporting to support services provided during the financial years 2013/14 and 2014/15. No explanation has been provided as to why the service providers did not provide certified copies of original invoices as issued to the parent ministry. These anomalies casts doubt on the validity on payments for the security service totalling to Kshs.38,980,528 debts reported as at 30 June 2016.

Consequently, it has not been possible to confirm probity in use of the public funds amounting to Kshs.105 million applied by the Authority to pay for the security bills which ought to have been settled by the Ministry.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Micro and Small Enterprises 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. I have determined that there are no Key Audit Matters to communicate in my report.

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 Qualified Opinion section of my report, 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

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 matter described on the effectiveness of Internal Controls, Risk Management and Governance section 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.

Weak Internal Controls

As previously reported, the Authority relies on staff members deployed from the parent Ministry with the exception of the Chief Executive Officer. Consequently, the Authority does not have full control of staff members, which hampers the service delivery and execution of the Authority's mandate.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require 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 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 governance.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Authority either 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.

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 Authority's financial reporting process, reviewing the effectiveness of how the Authority 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 sustainability of services, 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 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 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

13 August 2019