

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL AUTHORITY FOR THE CAMPAIGN AGAINST ALCOHOLIC AND DRUG ABUSE – ALCOHOLIC DRINKS CONTROL FUND FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Authority for the Campaign Against Alcoholic and Drug Abuse – Alcoholic and Drug Control Fund set out on pages 1 to 24, 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 National Authority for the Campaign Against Alcoholic and Drug Abuse – Alcoholic and Drug Control Fund 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 Public Finance Management Act, 2012.

In addition, 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 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. Liquor Licensing Fee

The statement of financial performance reflects an amount of Kshs. 16,400,737 against income from liquor licensing for the year ended 30 June 2017. No satisfactory explanation has been provided for the continued collection of the fee by the Fund contrary to the provisions of Section 4(c), Part 2 of the Fourth Schedule of the Constitution of Kenya. The regularity of the income of Kshs. 16,400,737 could not be confirmed under the circumstances.

2. Staff Car Loan and Housing Mortgage Schemes

National Authority for the Campaign Against Alcohol and Drug Abuse signed an agreement with HFC Limited for staff housing mortgage scheme on 25 February, 2016 and staff car

loan scheme on 5 December, 2016. The initial term deposit was Kshs.150 million. Audit review of records relating to the schemes has revealed the following anomalies:

(i). Interest Earned

Although it is disclosed under Note 7 to the financial statements that the Fund earned interest from the staff mortgage fund amounting to Kshs.9, 574,101 during the year under review, the rate of interest has not been indicated.

(ii). Uncredited Principal Amounts

Principal amounts of Kshs. 1,162,718 and Kshs. 271,904 received by HFC Limited in respect of staff housing mortgage scheme and car loan scheme respectively, appear not to have been credited to the staff housing mortgage and car loan bank account.

3. Inaccuracy of Cash and Cash Equivalents

(i). The statement of financial position reflects cash and cash equivalents' balance of Kshs. 656,585,451 and as disclosed in Note 17 to the financial statements, which includes an amount of Kshs.67, 781,647 relating to staff car loans/ mortgage. However, the cash book and certificate of bank balance for the staff car loans/ mortgage schemes account reflects Kshs. 65,961,121 and Ksh.94, 570,636, respectively. The resulting differences of Kshs. 1,820,526 and Kshs. 26,788,989, respectively have not been explained.

(ii). The schedules of bank reconciliation statements for the year under review includes a direct credit of Kshs. 28,609,515 whose source has not been disclosed and the same is not reflected in the cash book.

(iii). Disclosed also in Note 17 is a balance of Kshs. 491,086,302 in respect of fixed deposits account- Treasury Bill. The investment in the Treasury Bill is not, however, supported by Central Bank of Kenya CDS account in the name of the Fund, the account statements for 2016/2017 and certificate of balance as at 30 June,2017.

In the circumstances, it is not possible to confirm full existence and accuracy of cash and cash equivalents' balance of Kshs. 656,585,451 as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Authority for the Campaign Against Alcoholic and Drug Abuse – Alcoholic and Drug Control Fund 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.

Material Uncertainty Related to Sustainability of Services

The statement of financial performance reflects an operating deficit of Kshs. 268,868,280 for the year ended 30 June 2017 (2016 – a deficit of Kshs. 146,491,481). As disclosed in Note 6 to the financial statements, liquor licensing which used to be a major source of income to the Fund was devolved to the counties in terms of the new constitution. The ability of the Fund to sustain its services depends therefore on continued financial support from the national government.

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 under Material Uncertainty Related to Sustainability of Services sections, I have determined that there are no other Key Audit Matters to communicate in my report.

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 (Cash 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 Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Fund 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 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 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.

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 Fund'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 Fund's ability 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 Fund to cease sustaining 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 Fund 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

12 July 2018