

REPORT OF THE AUDITOR-GENERAL ON NATIONAL EMPLOYMENT AUTHORITY FOR THE FIVE MONTHS PERIOD ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Employment Authority set out on pages 21 to 32 which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of cash flows and statement of comparative budget and actual amounts for the period 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, Section 35 of the Public Audit Act, 2015 and The National Employment Act, No. 3 of 2016. 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 National Employment Authority as at 30 June 2017 and of its financial performance and its cash flows for the period then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the National Employment Act No. 3.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter section 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Employment 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 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 Other Matter section of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Other Matter

1.0 Budget and Budgetary Performance

1.1 Receipts

The statements of comparison of budget and actual amounts for the year revealed the following variances:

Receipts

Description	Final Budget	Actual	Excess (+)/ Shortfall (-)	% Variance
Receipts	Kshs.	Kshs.	Kshs.	
Government grants and subsidies	200,000,000	195,000,000	-5,000,000	-2.50
Sale of goods	5,000,000	0	-5,000,000	-100
Total	205,000,000	195,000,000	-10,000,000	4.9

The variance of Kshs.5 million under Government grants and subsidies was explained as having been spent by the parent Ministry during the operationalisation stage of the Authority while the variance of Kshs.5 million under sale of goods were fees collected by the Ministry for services rendered before the Authority started operations.

1.2 Expenditure

An analysis of the Authority actual expenditure against the budgeted amount revealed the following variances:

Description	Final Budget	Actual	Over(+)/Under(-)	% Variance
Payments	Kshs.	Kshs.	Kshs.	
Compensation of employees	4,000,000	731,140	-3,268,860	-82
Other payments	201,000,000	48,999,722	-152,000,278	-76
Total	205,000,000	49,730,862	-155,269,138	76

The under expenditure of Kshs.155,269,138 or 76% was mainly attributed to late commencement of operations in February 2017, hence key decisions and activities could not be implemented.

2. Lack of Substantive Director General

Section 17 of The National Employment Authority Act requires the Board of the Authority to fill competitively the position of Director General being the Chief Executive Officer of the Authority provided that the person appointed has the required academic qualifications and experience. However, the position is still vacant after over one year since the Gazettement and inauguration of the board.

No reasons have been given for failure to fill the position of Director General.

3. Weak Internal Control System

A review of internal controls disclosed that the Authority did not have in place an accounting software and adequate staff, which are necessary for smooth operations. Financial data integrity and segregation of duties could not be assured by management.

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 (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 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 Authority's 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 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 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 accounting concept 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's 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 of the Authority's activities 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

08 March 2018