

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Disclaimer of Opinion**

I have audited the accompanying financial statements of National Government Affirmative Action Fund set out on pages 1 to 23, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

### **Basis for Disclaimer of Opinion**

#### **1. Cash and Cash Equivalents**

(i). The cash and cash equivalents' balance of Kshs.127,358,483 as reflected on the statement of financial position as at 30 June 2017 represents cash held at the Central Bank as disclosed in Note 14(b) to the financial statements. Although it is evident that the Fund operated additional bank accounts in the forty-seven counties, no cashbooks, bank statements and bank reconciliations for the bank accounts were provided for audit review. In addition, the cash balances held in these bank accounts have not been included in the statement of financial position as at 30 June, 2017.

(ii). The Public Finance Management (National Government Affirmative Action Fund) Regulations, 2016 under regulation 24 (4) requires that a bank account be opened for each county committee. Although, it is evident that the county bank accounts were opened and funds transferred from the main account to these accounts, no information was provided on the specific approval by the National Treasury to opening these bank accounts. It was also not possible to verify whether the accounts operating mandates were in line with the regulations or not.

(ii). The Public Finance Management (National Government Affirmative Action Fund) Regulations 2016, regulation 24 (8) requires that balances held at the end of the financial year be returned to the National Government Affirmative Action Fund account. However, no evidence was provided to show that the above regulation was adhered to by any of the county committees for the year ended 30 June 2017.

## **2. Presentation of Financial Statements**

(i). Although the financial statements have been prepared on accrual basis of accounting, the statement of financial performance, reflects account items for the expenses which differs from the format prescribed by the Public Sector Accounting Standards Board. No justification has been provided for this deviation from the prescribed reporting format.

(ii). In addition, an amount of Kshs.163,496,536 spent on acquisition of motor vehicles as disclosed in Note 8 to the financial statements has been expensed and presented in the statement of financial performance instead of being capitalized and presented as non-current assets under property, plant and equipment in the statement of financial position. This is contrary to the requirement of International Public Sector Accounting Standard (IPSAS) 17, Paragraph 13, which requires tangible assets that are held for use in the production or supply of goods or services for administrative purposes or otherwise and are expected to be used for more than one reporting period, to be classified and treated as part of property, plant and equipment.

(iii). Further, the financial statements for the year ended 30 June 2017 reflect comparative figures for 2015/2016 in the statement of financial performance, statement of financial position, statement of changes in net assets, statement of cash flows and notes to financial statements. However, the comparative figures have not been supported with any relevant documentation to show the conversion of prior year figures from IPSAS cash basis accounting to IPSAS accrual basis of accounting.

## **3. Annual Budget for Year 2016/2017**

The financial statements include a statement of comparison of budget against actual amounts. However, the approved budget for the year 2016/2017 was not provided for audit verification. Consequently, it has not been possible to confirm whether the expenditure for various account items were within the approved budget.

## **4. Responsibility for Preparation and Submission of Financial Statements**

The Public Finance Management (National Government Affirmative Action Fund) Regulations, 2016 regulation 15 designates the accounting officer of the State Department responsible for matters relating to gender affairs as the designated administrator of the Fund with the responsibility of keeping proper books of accounts, preparing and signing the financial statements for each year and submitting to the Auditor-General for audit. However, the financial statements submitted have not been signed by the designated Fund administrator contrary to the regulations and Section 84 of the Public Finance Management Act, 2012.

## **5. Accuracy of Financial Statements**

The following has been noted with regard to the financial statements:

(i). The brought forward balance of Kshs.2,313,420,402 in respect of revenue from non-exchange transactions reflected in the statement of financial performance does not agree with the figure of Kshs. 2,130,000,000 disclosed in Note 1 to the financial statements.

(ii). Exchequer receipts comparative figure of Kshs.4,050,000,000 reflected in the statement of financial performance differs with the figure of Kshs.2,130,000,000 disclosed in Note 2 to the financial statements. In addition, the receipts have been described differently as “exchequer receipts” and “operational grants” in the statement of financial performance and Note 2, respectively.

## **6. Unexplained Adjustments**

An adjustment of Kshs.7,258,321 processed against the expenditure on transfer to other Government units which increased the initial reported figure of Kshs.4,006,699,872 to the final figure of Kshs.4,013,958,193 as reflected in the statement of financial performance has not been explained. Consequently, the accuracy of the figure could not be ascertained.

## **7. Transfer to Secretariat**

The statement of financial performance reflects against board expenses amounts of Kshs.192,326,620 and Kshs.40,000,000 for 2016/2017 and 2015/2016 financial years, respectively. The amounts, however, relate to transfers to the Fund`s Secretariat. The following has also been noted:

(i). The transfer to the Fund`s Secretariat is required to be 5% of the total disbursements but in this case, there is no indication of the basis on how the amounts transferred have been derived. The total transfers to the Secretariat for the two years should have been 5% of Kshs.6,180,000,000 amounting to Kshs.309,000,000. The short fall of Kshs.76,673,371 has not been explained.

(ii). No documentation was provided to support how the amounts have been utilized by the Fund management.

(iii). Although 60% of these amounts were to be transferred to the county committees, no documentary evidence was provided to show that the amounts were transferred to the committees and if so, how the county committees had utilized the funds.

(iv). Accountabilities statement for transfers to the Secretariat have not been prepared and provided for audit verification.

(v). A separate bank account was not maintained for the Fund`s Secretariat.

## **8. Transfer to Other Government Units**

Transfer to Other Government Units amounting to Kshs.4,013,958,103 shown in the statement of financial performance relates to disbursement made by the Fund to the county committees. However, the following has been noted:

- (i). Even though there were Board minutes to support approval of transfer of funds to the county committees detailing the amounts and the period, the basis of approvals in form of approved work plans were not provided for audit verification.
- (ii). In addition, the Board's approved county committees projects' reports were not provided for audit verification.
- (iii). There were no accountability statements from the county committees and supporting documents for the payments made out of the funds from the county committees' bank accounts.
- (iv).The county committees' cash and bank balances as at 30 June 2017 were not accounted for in the financial statements but assumed to have been utilized and forming part of the expenditure which is incorrect.
- (v). Records of the county committees' bank accounts were not provided for audit examination. Consequently, it has not been possible to ascertain compliance with the Fund's regulations, receipt of funds and validity of payments out of these bank accounts by the county committees.

Under the circumstances, the propriety and accuracy of transfers to other government entities expenditure of Kshs.4,103,958,103 could not be confirmed.

## **9. Emergency Reserve**

Legal Notice No. 52 of 1 April 2016 Clause 13 stipulates that, there shall be an emergency reserve for the Fund made up of 2% of the allocations and which shall be un-allocated to cater for emergencies. The expected emergency reserve balance should have been 123,600,000 as at the 30 June 2017 less any utilization that should be in line with the regulations. However, no emergency reserve has been reflected and disclosed in the financial statements in terms of the amount. The Fund's management appeared not to have implemented or adhered to the regulations with regard to the emergency reserve.

## **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 misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the National Government Affirmative Action Fund 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 Board or to cease operations, or have no realistic alternative but to do so.

The 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 Board's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

My responsibility is to conduct an audit of the National Government Affirmative Action Fund financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of National Government Affirmative Action 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**16 July 2018**