REPORT OF THE AUDITOR-GENERAL ON NATIONAL SOCIAL SECURITY FUND (NSSF) FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Social Security Fund (NSSF) set out on pages 53 to 97, which comprise the statement of net assets available for benefits as at 30 June 2018, and the statement of changes in net assets available for benefits, statement of changes in accumulated members' funds, 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 effects 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 Social Security Fund (NSSF) as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the NSSF Act No.45 of 2013.

Basis for Qualified Opinion

1. Contributions Receivables

The financial statements under the statement of changes in net assets available for benefits for the year ended 30 June 2018 reflects a balance of Kshs.14,044,262,078 in respect of members contributions. A review of collection records and related documentations for the year under audit, disclosed variances as follows:

Type	Amount in reports generated from SSPAS Kshs.	Amount in Financial Statements Kshs.	Variance Kshs.
Monthly Collection Reports (Total all Branches)	14,016,684,188.61	14,044,262,078	27,577,889.39
Global Report	14,030,656,823.31	14,044,262,078	13,605,254.69

The differences between the global and monthly collection reports have been explained as due to the fact that branch reports do not include Mpesa payments, miscellaneous income and payments receipted through reconciliations. However, it was not clear why these receipts were not reflected in the branch reports since receipting under SSPAS is centralized. Further, a reconciliation between amounts in the global and branch reports was not availed for audit verification.

In consequence, the accuracy and completeness of the contributions receivable balance of Kshs.14,044,262,078 for the of the year ended 30 June 2018 could not be confirmed.

2. Unaccounted for Members Contributions

2.1 Unremitted Members Contributions

A review of the members contributions status from 183 branches across the 5 regions of the Fund showed that outstanding contribution and related penalties as at 30 June 2018 amounted to Kshs.1,764,512,137 and Kshs.4,585,005,445 respectively both totaling Kshs.6,349,517,582. This was contrary to Section 8(a) of the NSSF Act, 2013 which requires employers to deduct from their employees and remit the contributions to NSSF in full and on time.

Although management has indicated that recovery efforts through alternative dispute resolution, court action and Intergovernmental Relations Technical Committee for cases involving County Governments are in progress, as at the time of audit in March 2019 only Kshs.771,225,862 had been subsequently recovered from the defaulters leaving a balance of Kshs.5,578,291,720 outstanding.

In view of the foregoing, recoverability of the unremitted members contributions accumulated over the years amounting to Kshs.5,578,291,720 remains doubtful.

2.2 Contributions in Transit

The financial statements under statement of changes in net assets available for benefits for the year ended 30 June 2018 reflects a net surplus from dealings with members of Kshs.10,255,409,092. In compliance with Retirement Benefits Act, 1997, NSSF maintains employer contribution clearing accounts where total contributions are posted from employers to the credit of members' accounts for benefits payment upon qualification as per the Act. A review of Note 41 to the financial statements showed that in the year under review, the contributions in transit representing contributions which had not been posted to individual members' accounts reduced by Kshs.99 Million from Kshs.762 million as at 30 June 2017 to Kshs.663 million as at 30 June 2018. However, no reasons have been provided for failure to reconcile and post the remaining balance of Kshs.663 million which has accumulated over the years to the respective member's accounts.

Consequently, the Fund members may be unable to access their benefits especially those claiming in the intervening period.

3. Payables and Accrual Balances

Note 32 to the financial statements reflects a balance of Kshs.2,295,147,790 in respect of payables and accruals. However, the fund did not provide schedules to support the following balances:

3.1 Goods Receipts/Invoice Receipts (GR/IR) Clearing Account

Included in the payables due to vendors balance of Kshs.392,943,345 under Note 32 to the financial statements is Kshs.216,749,719.43 relating to various vendors GR/IR Clearing Account. However, the list availed in support of the balance was found to be incomplete whereby, details of majority of the vendors were missing hence it has not been possible to confirm the debits and credit entries against vendors' accounts dating back to January 2013.

3.2 Unidentified Net Salary Payable

Included in the statutory deductions payables balance of Kshs.34,512,649 is Kshs.34,411,397 in respect to net salary payable dating back to November 2012. No satisfactory reasons have been given for the long delay in investigating and identifying the beneficiaries.

3.3 Long Outstanding Creditors

A list of creditors generated from the Social Security Pension Administration System (SSPAS) revealed an amount of Kshs.34,206,467.45 for which age analysis showed that they have been outstanding since 2015/2016. Further, the respective invoices from the suppliers of goods and services rendered as well as supporting details for amounts owed to various NSSF staff were not made available for audit to validate the balances as payable.

The management has also not provided any explanation as to why the amounts have remained outstanding for more than two years without being settled and cleared from the system.

3.4 Returned Benefits to Members

The payables and accrual balance of Kshs.2,295,147,790 also includes an amount of Kshs.272,128,052.87 in respect of returned benefits payable to members as follows:

Item	Period	Amount as per the SSAP Schedule Kshs.
Returned Refunds	31/10/2012	751,095.40
Returned Age Benefit	01/11/2012	104,363,989.03
Returned Survivors Benefits	01/11/2012	-4,046,719.36
Returned Invalidity Benefits	31/10/2012	12,929,633.50
Returned Withdrawal Benefits	01/11/2012	149,506,489.55
Returned Emigration Benefits	31/10/2012	8,623,564.75

Total		272,128,052.87

It was not clear why the returned benefits have remained outstanding for a long period of time without being; investigated, beneficiaries identified, paid and cleared from the system.

4. Unreconciled Cash and Bank Balances

The statement of net assets available for benefits as at 30 June 2018 reflected a cash and cash equivalents balance of Kshs.1,271,066,588 in respect of both cash in hand and at bank while the general ledger reflects a balance of Kshs.756,823,113 resulting to a variance of Kshs.514,243,475 which has not been reconciled or explained.

Further, examination of the bank reconciliations statement as at 30 June 2018 revealed that out of its eighty-four (84) bank accounts, five (5) were facing systems reconciliation challenges as follows:

4.1 Receipts in Bank Statements not in Cashbooks

On 30 June 2018, bank reconciliation statements for all bank accounts of the Fund reflected receipts in the banks but not recorded in the cashbooks totalling Kshs.395,136,390 out of which Kshs.386,924,460 relates to the year under audit. No reasons have been given for the failure to record the receipts in the cashbooks.

Consequently, the contributions receivable balance of Kshs.14,044,262,078 as reflected in the statement of changes in net assets available for benefits for the year ended 30 June 2018 has been understated by Kshs.395,136,390.

4.2 Receipts in Cashbooks not in Bank Statements

The bank reconciliation statements for June 2018 further reflect receipts in the cashbook but not reflected in the bank statements totaling Kshs.1,186,515,978 dating back to 24 July 2014. No reasons have been provided for the failure to bank the long outstanding receipts.

4.3 Payments in Bank Statements not in Cashbooks

The bank reconciliation statements also reflect payments totaling Kshs.19,015,236 dating back to January 2018 in respect of inward unpaid cheques in the bank statement not yet reflected in the cashbook as at 30 June 2018. No reasons have been provided for the failure to investigate and reverse back into the cashbooks the inward unpaid cheques which have an effect of overstating the balance of benefits received from members.

In addition, bank reconciliations statements for the following accounts were not availed for audit review:

Account Name	Account Number/Source	Cashbook Amount Kshs.
Income	1107110270	-305,990,775.15
Branch Income	1200583299	- 447,161,382.01
KCB Eastleigh	Trial balance	900,000.00
Imprest Account		213,710.33

In the circumstances, it has not been possible to confirm the accuracy of cash and bank balance of Kshs.1,271,066,588 reflected in the statement of net assets available for benefits as at 30 June 2018.

5. Provision for Bad Debts

Note 23 to the financial statements reflects provision for bad debts totaling Kshs.67,129,942 as follows:

	Name/Description	Amount
		Kshs.
1	ECASSA Debtors	9,211,610
2	City Council of Nairobi	2,474,000
3	Mutula Kilonzo	5,015,000
4	Lloyd Masika	4,787,000
5	Bounced Cheques	45,642,332
	Total	**67,129,942**

The basis for this provision has not been given considering that some of the debtors are financially stable companies and individuals. Further, no efforts appear to have been made including legal action towards recovery of the same. In addition, details of the drawers of the bounced cheques totaling Kshs.45,642,332 included in the provision were not made available for audit verification.

In view of the foregoing, it has not been possible to confirm the validity and legality of the provision for bad debts of Kshs.67,129.942 which in effect understates receivables and prepayments balance in the financial statements.

6. Fixed Deposits (Held to Maturity)

Note 17(b) to the financial statements reflects a total of Kshs.3,009,277,681 in respect of fixed deposits (held to Maturity) as at 30 June 2018 which is net of a provision of Kshs.329,500,000 in respect of deposits held in Chase Bank and Imperial Bank amounting to Kshs.70,000,000 and Kshs.259,500,000 respectively. These amounts were invested between 8 September 2015 and 3 March 2016 and were to mature between December 2015 and May 2016. However, and as previously reported, Chase Bank and Imperial Bank were put under statutory management by Central Bank of Kenya (CBK) on 7 April, 2016 and 13 October 2015 respectively and only Kshs.26,682,488 has been recovered from Imperial Bank.

In the circumstances, recoverability of fixed deposits totaling Kshs.302,817,512 invested in the two banks under statutory management is in doubt.

7. Corporate Bonds

Note 20 to the financial statements reflects corporate bonds balance of Kshs.7,677,218,892 as at 30 June 2018 which is net of a provision of Kshs.666,900,000 in respect of Imperial Bank and Chase Bank bonds amounting to Kshs.132,200,000 and Kshs.534,700,000 respectively. The bonds were invested between 28 September 2015 and 6 October 2015 and were to mature between February 2022 and September 2022. As previously stated, the two banks were put under statutory management by Central Bank of Kenya(CBK) before maturity of the bonds.

Consequently, it has not been possible to confirm recoverability of the money invested in corporate bonds totaling Kshs.666,900,000 as at 30 June 2018.

8. Assets under construction

The statement of net assets available for benefits as at 30 June 2018 reflects a balance of Kshs.6,203,801,502 in respect of assets under construction which was an increase from Kshs.5,550,052,554 in 2016/2017 after revaluation carried out during the year under audit.

A review of the status of assets under construction in the year under audit revealed the following:

8.1 Hazina Trade Centre

Included in the assets under construction balance of Kshs.6,203,801,502 is an amount of Kshs.2,039,836,328 relating to Hazina Trade Centre construction project.

As previously reported, the construction of Hazina Trade Centre, Nairobi commenced on 17 June 2013 and was to be undertaken in 155 weeks with an expected completion date of July 2016. However, as at the time of the audit carried out in April 2019 the project was still not complete and only minimal activities were observed. According to the information given during the site visit, the building had been scaled down to reach 15 floors from the initial scope of 34 floors representing a 56% reduction while the contract sum reduced from Kshs.6,715,218,188 to Kshs.4,095,862,434 (variation order number 1) a reduction of Kshs.2,619,355,754 or 39%.

As at 30 June 2018 the contractor had been paid up to certificate No. 6 which cumulatively brings the total payments to Kshs.2,183,017,974 representing 53% of the revised contract sum against the State Department of Public Works valuation of Kshs.2,349,953,195.90.

Considering the minimal work mobilization at the site, it is not clear whether the construction works would be completed by the revised contract date of 30 June 2019 and within the revised contract sum of Kshs.4,095,862,434.

8.2 Milimani Executive Apartments – Nairobi (LR NO. 209/1796 & 5014)

Assets under construction balance of Kshs.6,203,801,502 also includes an amount of Kshs.2,564,664,264 in respect of Milimani flats project. The project comprises of 104 spacious apartments on Five Blocks A-E with initial estimated cost of Kshs.1.55 Billion. The contractor (Nanchang Foreign Engineering Company (Kenya) Limited) completed the project at a pre-measured works value of Kshs.1,692,262,919.38 and handed over the project on 9 April 2019 to the Fund.

Further, the Board approved the sales process to be categorized in two-fold, in that the 3-bedroomed unit with a DSQ was to be sold at Kshs.35 million each and a 3-bedroomed unit without a DSQ to be sold at Kshs.31 million each. The Fund expected total sales amounting to Kshs.3,600,000,000 by the time of handed-over. However, total sales realized amounted to Kshs.753,520,000 as at 9 April 2019 the date of handing over as follows:

Type	**9. No. units**	**Initial Deposit of 10% Kshs.**	**Expected Amount Kshs.**
House with DSQ	94	722,520,000	3,290,000,000
House W/O DSQ	10	31,000,000	310,000,000
Total	**104**	**753,520,000**	**3,600,000,000**

In order to achieve the intended benefits from the investment the Fund should expedite collection of the remaining balances totaling Kshs.2,846,480,000.

Unresolved Prior Year Matters

1. Irregular Disposal of Undeveloped Land - Mavoko

As previously reported, undeveloped land in Mavoko Municipality measuring 69.16 acres was subdivided into seven (7) plots of 9.88 acres and disposed-off at Kshs.18,000,000 each. The plots were sold to AMS Properties Limited on the basis of an agreement dated 21 November, 2011 at a total cost of Kshs.126,000,000. However, only Kshs.12,600,000 or 10% was paid vide Miscellaneous Receipt M010022315 dated 23 August, 2011. The balance of Kshs.113,400,000 which was to be paid within 90 days from the date of execution of the agreement has not been settled to date.

The management has explained that the contract has not been terminated since the delay in completing the conveyancing process was caused by a dispute over physical location of the plots involving the Fund and other parties who claimed to have ownership documents to the land. However, it was not clear why it has taken this long to resolve the dispute on the plot and what legal action has been taken by the management.

2. Non – Beneficial Lease of Hazina Plaza Mombasa – LR. NO.MSA/BLK XX/328 & 329

As previously reported, Hazina Plaza formally known as Polana Hotel was acquired by the Fund at a cost of Kshs.450 Million in 1994. The Plaza comprised of a nine storey building which was leased and operated as a four-star hotel at an annual rent of Kshs.60 Million.

However, the hotel reportedly remained partially closed since 2001 due to failure by the then tenant to meet rent obligations. The building was later advertised for sale on 3 September 2009 at a reserved price of Kshs.300 million, however the bids received were below the reserve price.

On 25 May 2010, the premises were again leased to M/s Techno Holdings Ltd at a monthly rent of Kshs.2.25 million or 27 million annually net of all taxes with an escalation cost of 10% after every two (2) years.

By September 2016, only Kshs.66,500,000 had been realized for the lessee.

An audit inspection carried out on 16 May 2019, revealed that the lessees and tenants were on 18 March 2019 evicted from the building following a court ruling. Upon eviction the building was extensively vandalized by the then tenants since they claimed that they had installed most of the items.

In view of the foregoing, the Fund, has not realized any value for money from the investment of Kshs.450 million in Hazina Plaza Mombasa since 1994. As earlier stated, the unrealized benefit from the investment in Mombasa Plaza cast doubts on prudent financial management for the interest of contributors.

3. Unrecovered Investment Returns - Kisumu Milimani Upmarket Houses

As previously reported, land LR.KISUMU/MUN/8/258 measuring 0.7740 Ha. situated in Milimani Estate, Kisumu County was on 26 November 2012 swapped to offset a debt of Kshs.150 million owed to the Fund by the then Municipal Council of Kisumu. The land is currently valued at Kshs.178,000,000. Within the land is a flat comprising of eight (8) two (2) bedrooms apartments and three separate maisonettes of three (3) bedrooms each with a servant quarter.

The houses have been rented out to NSSF officers at a monthly rate of Kshs.9,000 and Kshs.7,500 for apartments and maisonettes respectively, with a total of Kshs.900,000 realized from rent of the houses in the year under audit. Despite lack of commensurate rental income from these houses over the years, the Fund continued to provide security and other services. No reasons have so far been provided for the failure to review the rent payable since taking over the property in 2012. Review of the status in 2017/2018 revealed that no action has been taken to remedy this anomaly in the management of investment property.

Consequently, value for money has not been realized from the investment worth Kshs.178,000,000 over the last five (5) years up to 30 June 2018.

4. Refurbishment of Mombasa Social Security House

As previously reported, the Fund on 12 January 2012 entered into a contract with M/s EPCO Builders Ltd through Tender No. 27/2010-2011 after competitive bidding for the refurbishment and associated services of the Mombasa Social Security House at a cost of Kshs.217,530,427. The contract was to be executed within a period of forty (40) weeks after engagement. Information availed indicate that the project was completed and a certificate of practical completion issued by the project consultants on 7 November 2013 while a certificate of making good the defects was issued on 30 November 2015 and payments totalling to Kshs.226,218,458 made to the contractor. However, part of the main contract entailed the installation of Closed Circuit Television (CCTV) system at a cost of Kshs.48,666,664.

A physical inspection of House carried out on 16 May 2019 revealed that the CCTV system installed was still not functioning despite the fact that the contractor had been paid. In response to our enquiries, the management explained that the CCTV system was in proper working condition at the time of hand-over and worked effectively for the first two (2) years before developing technical issues due to lack of maintenance and a dispute on the amounts payable.

No reasons were provided for the failure to include a service maintenance clause in the contract signed or for the failure to resolve the dispute and have the system working.

5. Illegal Transfer of National Social Security Land in Upper Hill Nairobi – LR No. 209/11642

As previously reported, title deed for undeveloped parcel of land belonging to the Fund - LR.209/11642 measuring (approximately) 0.2100 hectares located at Upper Hill, Nairobi – next to Milimani law Courts purchased on 20 April 1996 at a cost of Kshs.20,000,000 was irregularly revoked and reallocated to the Judiciary.

On 18 April 2016, the National Land Commission wrote to NSSF confirming the allocation to Judiciary and reiterated that it was not possible to reinstate the land to NSSF. Subsequently, the Fund filed a suit Case number ELC No.153 of 2018 against the Chief Land Registrar and the private entity (Le-Kuna Company) for alleged and unlawful misrepresentation to the Fund and the matter is yet to be determined.

In the circumstances the Fund risks losing workers' pensions funds invested in the above property if the land is not reinstated to NSSF.

6. Nyayo Estate Embakasi Phase Six Contract No. 18/2012/2013

As previously reported, the construction of 324 units at Nyayo Embakasi at a total cost of Kshs.2,155,407,742 by M/s China Jiangxi International Kenya Limited had stalled. The construction works which according to the contract signed on 21 February 2013 were to take seventy eight (78) weeks from 2 June 2013 to 30 November 2014. As at 27 March 2018, only forty-four (44) units had been constructed. Although the inability to proceed with the construction was attributed to failure by the Nairobi City County to grant relevant approvals to enable construction of the remaining two hundred and eighty (280) units, no effort appears to have been made to ensure completion of the project.

By the time of stoppage, the contactor had been paid an advance fee of Kshs.215,540,744.22 against a bank guarantee from the Standard Chartered Bank which expired on 30 September 2015.

In the circumstances, the fund stands a risk of losing the Kshs.215,540,744.22 already paid and additional losses on delayed completion of the project.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Social Security Fund (NSSF) 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 section, I have determined that there are no other key audit matters to communicate in my report.

Emphasis of Matter

Budget and Budgetary Performance

1. Revenue

The Fund's actual income amounted to Kshs.31,316,814,415 against the budgeted amount of Kshs.28,413,942,000 resulting to extra receipts of Kshs.2,902,872,415 or 10% as tabulated below:

Summarized Income Analysis:

Item	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Variance %
Contributions Receivable	17,014,452,000	14,044,262,078	(2,970,189,922)	17
Benefits Payable	(4,605,000,000)	(3,788,852,985)	816,147,015	18
Investment Income	13,978,235,000	17,659,476,325	3,681,241,325	26
Realized gain on sale of Investment	650,000,000	470,912,230	(179,087,770)	28
Unrealized gain on sale of Investment	1,348,855,000	2,864,581,640	1,515,726,640	112
Other Income	27,400,000	66,435,127	39,035,127	142
Total	**28,413,942,000**	**31,316,814,415**	**2,902,872,415**	**10**

The under collection in contributions receivable of Kshs.2,970,189,922 or 17% was attributed to numerous court cases which led to suspension of new rates of contributions provided in NSSF Act No. 45 of 2013. Further, the failure to pay budgeted benefits of Kshs.816,147,015 or 18% was attributed to lodged claims for benefits which were never applied for within the financial year.

2. Expenditure

The Fund had budgeted to spend Kshs.6,830,860,000 against the actual expenditure of Kshs.5,570,047,877 resulting to an under expenditure of Kshs.1,260,812,123 or 18% as follows:

Summarized Expenditure Analyses

Item	Budget Kshs.	Actual Kshs.	+Over/-Under Kshs.	Variance %
Staff Costs	4,096,459,000	3,818,034,559	-278,424,441	7
General Administrative Costs	1,954,401,000	1,347,662,131	-606,738,869	31
Investment management expenses	480,000,000	396,336,810	-83,663,190	17
Provisions	300,000,000	8,014,377	-291,985,623	97
Total	**6,830,860,000**	**5,570,047,877**	**-1,260,812,123**	**18**

The overall under expenditure of Kshs.1,260,812,123 was attributed to low legal expenses due to reduced legal claims attributable to slow resolution of project cases and related activities and postponement of some consultancy services.

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.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Senior Management in Acting Appointments

As previously reported, among the top management team, a total of four (4) senior staff including the Chief Executive Officer/Managing Trustee have been serving the Fund in an acting capacity with some acting since the year 2013. The management has however indicated that the positions have since been advertised.

2. Weaknesses in Systems and Controls

2.1 Use of Suppliers Invoices and Delivery Notes as Payment Vouchers

Audit review of the payment system revealed that the Fund has no standardized payment vouchers. It was noted that postings and approvals were done online in the SAP accounting software but the physical vouchers seen comprised of memos for internal payments as well as invoices and delivery notes that were stamped severally for various approvals. It was therefore difficult to determine the specific accounts charged in the absence of proper payment vouchers.

2.2 Weakness in the SAP Accounting Software and Social Security Pension Administration System (SSPAS)

The accounting software procured by the Fund failed to generate financial statements as expected of an end-to-end system. This has occasioned manual preparation of financial statements leading to numerous errors in the presented set of financial statements. Further, the expenditure schedules produced using SAP system excludes payee names and thus making it hard to relate the schedules generated against payment vouchers or files availed for audit verification. Further, review of the SAP system in relation to a cut off period feature on several and similar reports, generated on different days, gave conflicting results. SSPAS system too produced different figures for contributions collection for the same period at branch level compared to reports generated at the head office.

Consequently, the Fund may not have obtained value for money from amounts of Kshs.237,827,220.87 and Kshs.397,814,092.02 paid for acquisition of SAP and SSPAS systems respectively and from amount of Kshs.23,820,720(USD 235,848.72) paid as annual license fee for SAP as 30 June 2018.

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 Financial Reporting Standards (IFRS*)* 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 Fund'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 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.

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 Fund's financial reporting process, reviewing the effectiveness of how the entity 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 Fund's 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 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 continue as a going concern or 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 to continue as a going concern or 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 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
<u>AUDITOR-GENERAL</u>

Nairobi

7 August 2019