

# **REPORT OF THE AUDITOR-GENERAL ON OCCUPATIONAL SAFETY AND HEALTH FUND FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Occupational Safety and Health Fund set out on pages 12 to 21, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Occupational Safety and Health 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 (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures carried out, I confirm that public money has not been applied lawfully and in an effective way.

### **Basis for Adverse Opinion**

#### **1. Accuracy, Completeness and Presentation of Financial Statements**

##### **1.1 Unreconciled Cash and Bank Balances**

The statement of assets reflects a bank balance of Kshs.18,358,902 while the cashbook shows a balance of Kshs.3,807,026 as at 30 June, 2017 resulting into an unexplained difference of Kshs.14,551,876. In the circumstances, the source and accuracy of the bank balance of Kshs.18,358,902 reflected in the statement of assets as at 30 June, 2017 could not be confirmed.

##### **1.2 Presentation of Financial Statements**

The financial statements submitted for audit as at 30 June 2017 were not in compliance with the format prescribed by the Public Sector Accounting Standards Board of Kenya as they lacked the following key details:

- i) Forward by the Cabinet Secretary;
- ii) Summary statements of appropriation: development and recurrent combined;
- iii) Summary statement of provisionings;
- iv) Significant accounting policies;
- v) Colored photos of key personnel and top management; and

- vi) Progress on follow up of auditor recommendations for the previous year.
- vii) The financial statements have not been signed by the Accounting Officer as required to confirm ownership.

No reason has been given for the non-compliance.

In view of the foregoing, the accuracy, completeness and presentation of the financial statements for the year ended 30 June 2017 cannot be ascertained.

## **2. Incomplete Fixed Asset Register**

During the year under review, the Fund acquired motor vehicles worth Kshs.17,766,198 as shown in the statement of receipts and payments and Note 7 respectively. However, the Fund did not maintain a summary of fixed assets register for property, plant and equipment with necessary details such as; description of the asset, location, serial number, date purchased, source, cost price, additions, depreciation and disposals as required. Documents made available for audit scrutiny indicated that only an inventory listing of assets in the various offices was maintained.

In the circumstances, it has not been possible to confirm the existence, ownership, accuracy, custody, security and valuation of the property, plant and equipment balance of Kshs.17,766,198 as at 30 June 2017.

## **3. Unsupported and Unaccounted Transfers**

The statement of receipts and payments indicates transfer of AIA to Ministry of Labour and Social Security of Kshs.5,300,000 and Field Allocations of Kshs.3,300,000. However, Note 5 to the financial statements does not give any details of the AIA Transfers back to the parent Ministry. Further, Note 6 and Note 13 on Field Transfers has no mention of the field allocations as cross-referenced.

Consequently, the amount of Kshs.8,600,000 is not supported nor accounted for as at 30 June 2017.

## **4. Registration of Work Places**

As previously reported the Fund did not have updated data on the registered work places which forms the basis for levy collection. The number of registered work places did not change from the 15,248 reported in 2015/2016 financial year.

Again as previously reported, the Fund was expected to collect Kshs.76,240,000 from the 15,248 registered work places based on the annual fee of Kshs.5,000 per work place. However, only Kshs.55,538,355 was collected resulting in a shortfall of Kshs.20,701,645 or 27%.

The Fund has not explained the resultant shortfall in the amount collected totalling to Kshs.20,701,645 or failure to recognize the amount as a contingent asset in the financial statements as at 30 June 2017.

## **5. Shoddy Construction of Research Institute Office Complex**

As previously reported, the construction of the Fund's Research Institute Office Complex project which was commissioned in February 2010 at an estimated cost of Kshs.480,000,000 was still incomplete as at 30 June 2017.

During the audit inspection carried out in November 2017 it was noted that no activities were ongoing at the site and no further payments were made.

No plausible reason has been given for the eight (8) years delay in completion of the project whose primary objective was to enable the Fund embrace changing dynamics in work environment relating to health and safety of workers.

Under the circumstances, value for money has not been obtained for the Kshs.343,458,956 or 71.55% of the contract price paid to various contractors as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Occupational Safety and Health Fund management 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 adverse opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements. Except for the matters discussed in the Basis for Adverse Opinion and Other Matter sections of my report, I have determined that there were no Key Audit Matters to communicate in my report.

### **Other Matter**

#### **1.0 Budget and Budgetary Performance**

##### **1.1 Revenue**

The actual receipts amounted to Kshs.61,658,355 against the budgeted amount of Kshs.6,000,000 resulting in excess collection of Kshs.55,538,355 or 926% as tabulated below:

<b>Revenue Head</b>	<b>Budget Kshs.</b>	<b>Actual Kshs.</b>	<b>Excess/(shortfall) Kshs.</b>	<b>Excess/(Shortfall) %</b>
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Levy collections	0	55,538,355	55,538,355	100
Government grants & subsidies	6,000,000	6,000,000	0	0
<b>Total</b>	<b>6,000,000</b>	<b>61,538,355</b>	<b>55,538,355</b>	<b>926</b>

The excess collection was occasioned by failure to budget for levy collection where Kshs.55,538,355 was collected against a nil budget.

No reasons were provided for the failure to budget for levy collection which is the main source of revenue for the Fund and despite collection of Kshs.60,727,189 in 2015/2016 financial year.

## 1.2 Expenditure

The Fund had budgeted to spend Kshs.91,180,000 in 2016/2017 but spent Kshs.97,466,958 and as a result overspent by Kshs.6,286,958 or 7% as tabulated below:

<b>Expenditure</b>	<b>Budget Kshs.</b>	<b>Actual Kshs.</b>	<b>Over/(Under) Kshs.</b>	<b>Over/(under) %</b>
Training facilitation allowance	6,811,500	3,922,750	(2,888,750)	(42)
Use of goods & services	57,951,500	59,278,976	1,327,476	2.3
Transfers of AIA to MLSS	0	5,500,000	5,500,000	100
Field allocation	0	3,300,000	3,300,000	100
Acquisition of assets	15,000,000	17,766,198	2,766,198	18
Bank charges	0	18,034	18,034	100
Boards & conferences	11,417,000	7,681,000	(3,736,000)	(33)
<b>Total</b>	<b>91,180,000</b>	<b>97,466,958</b>	<b>6,286,958</b>	<b>7</b>

However, the required explanations for items of expenditures with over or under 10% were not provided in the Notes to the financial statements as required.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management is responsible for the preparation and fair representation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control such as management determines is necessary to enable the preparations 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 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 Fund or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statement to the Auditor-General in accordance with the provision of Section 47 of the Public Audit Act 2015.

Those charged with governance are responsible for overseeing the Fund'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 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 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 Fund 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 Fund'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**

**28 June 2018**