

# **REPORT OF THE AUDITOR-GENERAL ON PRISON INDUSTRIES REVOLVING FUND FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of the Prison Industries Revolving Fund set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 Prison Industries Revolving Fund as at 30 June 2018, 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.

### **Basis for Qualified Opinion**

#### **1. Non-current Assets**

The statement of financial position as at 30 June, 2018 reflects total non-current assets balance of Kshs.77,919,092.66. This differs with the balance of Kshs.74,992,652.66 shown in the property, plant, and equipment movement schedule in Note 17 to the financial statements by Kshs.2,926,440. In addition, the Prison Industries assets register shows that the Fund had non-current assets with total current value of Kshs.91,774,309.35 as at 30 June 2017.

In the circumstances, it has not been possible to ascertain the completeness and accuracy of the non-current assets balance of Kshs.77,919,092.66 reflected in the statement of financial position as at 30 June, 2018.

#### **2. Paymaster General (P.M.G.) Account**

The statement of financial position as at 30 June, 2018 reflects a balance of Kshs.175,987,430 against a Paymaster General Account as at 30 June 2018. This balance represents amounts held on behalf of the Fund in the former Ministry of Home Affairs Deposit Account and which was yet to be transferred to the Fund's new account as of 30 June 2018. However, no documentary evidence in the form of bank certificate or bank reconciliation statements of the said deposit account have been provided to support this balance.

Consequently, it has not been possible to confirm the existence, completeness and accuracy of the P.M.G. Account balance of Kshs.175,987,430 as at 30 June, 2018.

#### **3. Cash in Transit**

Included in Note 12 to the financial statements under cash and cash equivalents is a balance of Kshs.30,318,827 in respect of cash in transit as at 30 June 2018. However, no documentary evidence has been provided to support this balance.

Consequently, it has not been possible to confirm the existence, completeness and accuracy cash in transit balance of Kshs.30,318,827 as at 30 June 2018.

#### **4. Creditors**

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.188,239,335 against creditors. Analysis of this balance showing the details of the creditors including description, respective amounts due to them and period have not been provided for audit review.

As a result, the completeness and accuracy of the creditors balance of Kshs.188,239,335 as at 30 June 2018 cannot be confirmed.

#### **5. Debtors**

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.116,930,606.86 in respect of debtors. This balance is claimed to include an amount of Kshs.116,852,846.86 and Kshs.77,760 owed by government departments and private debtors, respectively. However, analyses of the balance showing each of the debtors and the amount due have not been provided for audit review. Further, no satisfactory explanation has been provided for failure to collect these outstanding debts.

In the circumstances, it has not been possible to confirm the validity and accuracy of the debtors' balance of Kshs.116,930,606.86 as at 30 June, 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Prison Industries Revolving 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.

#### **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 Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no key audit matters to communicate in my report.

### **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 and Basis for Conclusion

on Lawfulness and Effectiveness in Use of Public Resources sections 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.

### 1. Procurement of Raw Materials for Prison Industries Fund

Included in Note 14 to the financial statements under inventories are raw materials with a value of Kshs.195,756,762.27 as at 30 June 2018. The value includes raw materials amounting to Kshs.86,119,000 which the Prison Industries Revolving Fund had procured from various suppliers through the Government initiative of Access to Government Procurement Opportunities (AGPO) for various categories as detailed below:

<b>Date</b>	<b>Payee</b>	<b>Amount-Kshs</b>	<b>AGPO</b>
24/4/2018	Ramaca Investments	5,803,000	Women
25/4/2018	Cadenza Investment	4,080,000	Youth
29/9/2017	Cadenza Investment	2,040,000	Youth
21/5/2018	Kimgen Supplies Ltd	9,360,000	Women
06/12/2018	Kimgen Supplies Ltd	9,360,000	Women
02/03/2018	Kimgen Supplies Ltd	7,800,000	Women
27/6/2018	Jecin Enterprises	9,300,000	Women
25/4/2018	Abcos Industrial Ltd	7,920,000	Women
13/9/2017	Apex Coating Ltd	1,950,000	Youth
25/6/2018	Apex Coating Ltd	2,800,000	Youth
25/4/2018	Apex Coating Ltd	4,860,000	Youth
02/01/2018	Apex Coating Ltd	1,776,000	Youth
25/4/2018	Apex Coating Ltd	3,270,000	Youth
27/6/2018	Abcos Industrial Ltd	5,400,000	Women
29/9/2017	Kimgen Supplies Ltd	10,400,000	Women
		<b>86,119,000</b>	

Examination of payment records and documents revealed that although the above suppliers were indicated to be in the categories under the Access to Government Procurement Opportunities (AGPO), the National Treasury certificates to confirm the actual status of the firms have not been provided for audit review.

Consequently, it has not been possible to ascertain compliance with the Government initiative of Access to Government Procurement Opportunities (AGPO) with regard to the procurement of raw materials amounting to Kshs.86,119,000 or validity of the same.

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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

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 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 Public Sector Accounting Standards (Accrual Basis) 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 ability of Prison Industries Revolving Fund 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 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 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 policies and procedures may deteriorate.

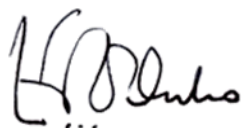
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 ability of Prison Industries Revolving Fund 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 Prison Industries Revolving 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 March 2019**