

REPORT OF THE AUDITOR-GENERAL ON RURAL ENTERPRISE FUND FOR THE YEAR ENDED 30 JUNE 2017 - THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the Rural Enterprise Fund set out on pages 14 to 31, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows 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 Rural Enterprise 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, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Winding up of the Fund

The Rural Enterprise Fund was recommended for wounding up through Legal Notice No. 97 dated 29 June 2012 as contained in a special issue of the Kenya Gazette Supplement No. 119 of 14 September 2012 upon which, any outstanding amounts in the Fund was to be paid into the Consolidated Fund. However, the National Treasury has not yet closed the Fund's books of account despite the Legal Notice and has continued to prepare and submit the Fund's financial statements for audit five years after the winding up decision was made. The financial statements presented reflect balances brought forward whose accuracy and validity could not be vouched after the winding up notice of the Fund. Further, the Fund management has not provided any information on the progress made since and the probable time when the process is expected to be completed.

2. Unresolved Prior Years Matters

A review of the unsatisfactory matters highlighted in the report prior to 2014/2015 revealed that the issues raised remained unresolved during the year 2016/2017 as indicated below:

i) Unbanked Cash

The statement reflects unbanked cash balances totaling Kshs.3,348,895.00 brought forward from 2012/2013 and earlier years. According to available information, the amount comprises of Kshs.1,951,920.60 representing cash with District Commissioners (Loans Repaid); Kshs.108,839.70 being Cash with DC (Interest on Loans); and Kshs.1,288,134.70 relating to cash in the District Commissioners miscellaneous deposit account. Further, there was no evidence to confirm actual existence of the balance of Kshs.3,348,895.00 at the District Commissioners Office. In addition, the balance of Kshs.1,951,920.60 under District Commissioners (Loans Repaid) included advances amounting to Kshs.207,344.25 in form of IOUs issued from the Fund to some five officers working at the District Commissioner's Office, Kisumu in 1997/1998. The IOUs had not, however, been surrendered as at 30 June 2014.

ii) Unreconciled Balance

As was reported in the previous year, the statement of assets and liabilities for deposits as at 30 June 2013 reflected a debit balance of Kshs.1,828,387.65 in respect of the Fund, while the Fund Accounts for the same year had reflected a balance of Kshs.397,908,774.30. The significant difference of Kshs.396,080,386.65 between the two sets of records has not been reconciled or explained since.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Rural Enterprise 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

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 (Cash 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 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.

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. 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.

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 Rural Enterprise 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 Rural Enterprise Fund's ability to continue 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 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 Rural Enterprise 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

16 May 2018