

REPORT OF THE AUDITOR GENERAL ON STORES AND SERVICE FUND– STATE DEPARTMENT OF PUBLIC WORKS FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Stores and Service Fund set out on pages 12 to 26, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets and the 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 do not express an opinion on the 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 audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer Opinion

1.0 Presentation of Financial Statements

Examination of the Fund's financial statements for the year ended 30 June 2017 revealed instances of non-compliance with the reporting template issued by Public Sector Accounting Standards Board (IPSAB) as outlined hereunder:

1.1 Unsigned Pages in the Financial Statements

The statements below were not signed by the Fund's management as required in the template:

- i. Statement of Financial Performance
- ii. Statement of changes in Net Assets
- iii. Statement of Cash flows

1.2 Missing Financial Statements Header

The financial statements as presented do not indicate the name of the Fund and the reporting year on top of each page as required in the template issued by the Board.

1.3 Wrong Description of Net Operating Results

The statement of Financial Performance shows the net operating results as 'Deficit for the period'. This description is not spaced and is also incorrect as the operations of the Fund resulted into net surplus.

1.4 Missing Disclosure Note on Bulk Purchases of Stores & Fuel

The statement of financial performance shows an expenditure item described as 'Bulk purchase of stores & fuel' with a balance of Kshs.96,461,850. This item is not properly spaced and also lacks a supporting disclosure Notes as required by International Public Sector Accounting Standards (IPSAS) 1.

1.5 Missing Statement of Comparison of Budget and Actual Amount

Template issued by Public Sector Accounting Standards Board (IPSAB) require that financial statements to have statement of comparison budget and actual amount which is also a requirement under paragraph 24 of International Public Sector Accounting Standards (IPSAS) 1. It was however observed that the Funds financial statements as presented do not have this statement and does therefore not comply with the Board's reporting standards.

2.0 Inaccuracies in the Financial Statements

A review of the Fund's financial statements for the year ended 30 June 2017 revealed several misstatements as outlined below:

2.1 Errors in Comparatives

A review of the comparatives balances in the financial statements showed differences with the audited balances for the year ended 30 June 2016 as follows:

Description	2016/17 (Comparatives)	2015/16 (Audited)	Variance
Revenue			
Sale of goods	73,273,198.71	96,639,911.34	-23,366,712.63
Expenses			
Bulk Purchase of stores & fuel	68,260,372	120,017,323.45	-51,756,951.45
Deficit for the Period	5,012,826.71	-23,377,412.11	28,390,238.82
Current Assets			
Cash and Equivalents	147,892,435	155,840,625.50	-7,948,190.50
Receivables	65,437,435.69	65,320,195.69	117,240.00

Inventories	131,879,858.35	130,121,256.10	1,758,602.25
Current Liabilities			
Payables	76,302,909	52,994,135	23,308,774.00
Payment in Advance	151,928,903.39	149,591,532	2,337,371.39
Non-Current Liabilities			
Borrowings	844,003,800	844,003,247	553.00
Financing			
Accumulated surplus	-848,001,253,.55	-816,282,206.91	-31,719,046.64

The above differences were not reconciled or explained.

3.0 Statement of Financial Performance

A review of the statement of financial performance for the year ended 30 June 2017 revealed several discrepancies as outlined below:

3.1 Undisclosed Fund Operating Expenditure

The statement of financial performance shows sales of goods and services amount of Kshs.100,047,543.88 and expenditure on Bulk Purchase of stores and fuel of Kshs.96,461,850 and a resultant surplus from operations of Kshs.3,585,693.88. It was however noted that the statement does not disclose costs related to operations of the Fund such as, Staff costs, utilities, motor vehicle running expenses and office running expenses. Consequently, the statement of financial performance does not reflect the correct position on results of the operations of the Fund.

3.2 Sales of Goods

The statement also shows amount of Kshs.100,047,543.88 as receipts from sale of goods which was not analyzed and did not have supporting documents. It was therefore not possible to confirm the accuracy and completeness of sales of goods amount of Kshs.100,047,543.88 for the year ended 30 June 2017.

3.3 Bulk Purchases of stores and Fuel

The statement further shows an amount of Kshs.96,461,850 for bulk purchase of stores and fuel. However, a schedule given in support of this amount did not show details of the payees and the date of payments. Further, management did not avail payment vouchers and the supporting procurement records for audit verification. In the circumstances the propriety, correctness and accuracy of the amount for bulk purchase of store and fuel in the financial statements could not be confirmed.

4.0 Statement of Financial Position

Examination of balances in the statement of financial position revealed the following discrepancies:

4.1 Receivables

The statement reflects receivables from exchange transactions balance of Kshs.65,437,435.69 which was not analyzed. Further, management did not avail a receivables ledger or correspondences with the said debtors for audit verification. It was therefore not possible to confirm the accuracy of receivables balance reflected in the financial statements.

4.2 Trade and Other Payables

The statement of financial position also shows a balance of Kshs.97,278,341.8 in respect of Trade and other payables. Management provided two schedules in support of this of Kshs.79,595,301.05 and Kshs.17,549,971.75 for stores and fuel respectively. The combined total from these two schedules was Kshs.97,145,272.80 which differed from amount in the statement above by Kshs.133,069. Further, the two schedules did not have aging analysis and the creditors' ledger was not availed for audit verification. It was therefore not possible to confirm the accuracy and correctness of the Trade and other Payables balance as at 30 June 2017.

4.3 Payment Received in Advance

The statement of financial position also has a balance of Kshs.65,051,145 for Payments received in advance which was not analyzed. The accuracy of this amount could therefore not be confirmed.

4.4 Inventories – Kshs.137,830,311.55

The statement further shows a balance of Kshs.137,830,311.55 for inventories. A schedule provided in support of this amount only showed a breakdown by station with a total of Kshs.105,785,617.77. resulting to a variance of Kshs.32,044,693.78. Further, management did not avail a stock taking report or stock sheets in support of inventories balance. In the circumstances, the accuracy of inventories balance in the financial statements could not be confirmed.

4.5 Borrowings

The statement of financial position also reflects a borrowings balance of Kshs.844,003,800.00. However, the document availed in support of this amount is a letter from Central Bank dated 8th September 2008 showing write off of overdrawn Fund's Bank account balances of Kshs.560,408,645.95. The amount in this supporting document differed from the financial statements balance of Kshs.844,003,800 by Kshs.283,595,154.05 which was not explained. It was also noted that the description given to this balance is incorrect as overdraft write-off is a funding source since it amounts to settling a liability without a requirement for the Fund to repay this amount.

4.6 Cash and Cash Equivalents

The statement also shows a cash and cash equivalents balance of Kshs.79,625,351.30 representing a bank balance of Kshs.79,326,057.80 and cash in hand balance of Kshs.299,293.50. However, examination of the Fund's cash book and

the supporting bank reconciliation statements shows Bank balance of Kshs.81,319,219 as at 30 June 2017. Further, a cash count certificate from the Board of survey committee showed that the Fund had nil cash in hand balance as at the close of the year. In the circumstances, the accuracy and correctness of cash and cash equivalents of Kshs.79,625,351.30 could not be confirmed.

5.0 Statement of Changes in Net Assets

A review of the statement of changes in net assets for the year ended 30 June 2017 revealed the following errors:

- Balance brought forward as at 30 June 2016 description is not aligned to the corresponding amounts.
- The statement also reflects a balance for accumulated 'surplus' brought forward of Kshs.-792,904,794.79. This description is incorrect as the above 'surplus' is in negative meaning it is a deficit. Further, the audited financial statements for the year ended 30 June 2016 had accumulated balance carried down of Kshs.-816,282,206.92. The resultant difference of Kshs.-23,377,412.13 was not reconciled.

6.0 Statement of Cash flows

A review of the statement of cash flows for the year as set out in page 15 of the financial statements revealed some misstatements as follows:

6.1 Receipts

The statement shows receipts from sale of goods balance of Kshs.12,497,403 which differed from the statement of financial performance balance of Kshs.100,047,543.88 resulting to unexplained variance of Kshs.87,550,140.88.

6.2 Payments

The statement reflects payment for goods and services as Kshs.80,764,486.20 while the statement of financial performance has a balance of Kshs.96,461,850 on the same account. The resultant difference of Kshs.15,697,363.80 was not explained.

6.3 Net Cash Flows from Operating Activities

The statement further reflects a balance of Kshs.68,267,083.20 as net cash flow from operating activities which is supported by note 7 in the financial statements. A review of the above note revealed that change in receivables in the year was shown as negative Kshs.5,950,453.20 while the statement of financial position shows that there was no change in receivables balance from 2015/16. The balance for Net Cash flow from Operating Activities amount is therefore incorrect.

Unresolved Prior Year Matters – Inaccuracies for the year ended 30 June 2016

1.0 Inaccuracies in the Financial Statements

The 2015/2016 financial statements presented for audit review reflected the following inaccuracies:

1.1 Cash and Cash Equivalent

Cash and Cash Equivalent balance brought forward amounts to Kshs.224,744,758 while the prior year audited financial statements reflect a balance of Kshs.224,741,758 thus resulting to un-reconciled or unexplained variance of Kshs.3,000.

1.2 Inventories

The prior year's inventories balance reflected in the financial statements amounted to Kshs.130,935,582.50 while the audited closing balance was Kshs.128,342,508.06 thus resulting to a variance of Kshs.2,593,074.44 which has not been explained.

1.3 Sale of Goods

The prior year's balance for sale of goods amounts to Kshs.32,321,404.01 while the audited balance for the account in the year 2014/2015 was Kshs.252,482,244.98. The resultant difference of Kshs.220,160,841 has not been explained. In addition, the statement of financial performance reflects sale of goods balance of Kshs.96,639,911.34 as at 30 June 2016 while the statement of cash flows reflects Kshs.90,893,142.74 thus resulting to unexplained variance of Kshs.5,746,768.60.

1.4 Borrowings

The statement of financial position reflects prior year borrowings totaling to Kshs.844,003,247 while the audited statement of financial position as at 30 June 2016 reflects a balance of Kshs.844,003,247 under the Paymaster General (PMG) Account. It is not clear and the management has not explained the correlation of the two creditors. In addition, supporting documentation was not presented for audit review.

1.5 Bulk Purchases of Stores

The statement of financial performance for the year-ended 30 June 2016 reflect payment for bulk purchases of stores and fuel of Kshs.120,017,323.45 while the statement of cash flows reflects a balance of Kshs.76,186,588.45. The resultant difference of Kshs.43,830,735 has not been explained or reconciled.

In the circumstances, the validity and accuracy of the financial statements for the year ended 30 June 2016 could not be ascertained.

2. Bulk Purchases of Stores and Fuel

Note 8.4 to the financial statements indicate bulk purchases of stores and fuel of Kshs.82,135,913.45 and Kshs.37,881,410 respectively. However, schedules provided for audit review reflected balances of Kshs.83,572,057 and Kshs.36,445,266.45 for stores and fuel resulting to difference of Kshs.1,436,143.55 and Kshs.1,436,143.55 respectively which however, have not been explained. Further, supporting schedules

for purchase of fuel worth Kshs.36,445,226.45 indicate that the purchase was done in 2014 and therefore does not relate to the year under review. Management has not explained the anomaly. In addition, purchases of fuel during the year amounting to Kshs.13,508,501 was excluded from these financial statements.

Under the circumstances, it has not been possible to confirm the accuracy of bulky purchases of stores and fuel balance of Kshs.120,017,323.45 reflected in the financial statements for the year ended 30 June 2016.

3. Cash and Cash Flow Equivalents

The following anomalies were noted in relation to cash and cash equivalents of Kshs.155,840,625.50 included in the statement of financial position as at 30 June 2016:

- 3.1** The cash and cash equivalent balance of Kshs.155,840,625.50 reflected in the statement of financial position is at variance with the cashbook balance of Kshs.212,993 resulting to unexplained variance of Kshs.155,627,632.50.
- 3.2** Further, no evidence was presented for audit review to confirm that the Fund appointed a Board of Survey at the end of the financial year to verify the actual cash balance of Kshs.117,613 reflected in Note 8.5 (b) to the financial statements.
- 3.3** The bank reconciliation statement presented for audit review reflected receipts in the bank statement and not in the cash book of Kshs.90,785.50 and receipts in the cash book and not in the bank statement of Kshs.499,641.48. In addition, Kshs.5,387,451.60 described in the bank reconciliation statement as a cashbook under cast could not be confirmed.

In the circumstances, the validity and accuracy of cash and cash equivalent balance of Kshs.155,840,625.50 as at 30 June 2016 cannot be confirmed.

4. Trade and Other Payables

Trade and other payables from exchange transactions balance reflected in the statement of financial position as at 30 June 2016 was Kshs.52,994,135. However, supporting schedules reflect a balance of Kshs.51,915,535 thus resulting to a variance of Kshs.1,078,600 which has not been explained or reconciled. Further, records available indicate that other unpaid purchases totaling to Kshs.52,280,900 were excluded from the trade and other payables balance of Kshs.52,994,135 but no reason was given for their omission. Under the circumstances the trade and other payables from the exchange transactions balance of Kshs.52,994,135 included in the statement of financial position as at 30 June 2016 could not be confirmed.

5. Inventories

The statement of financial position as at 30 June 2016 reflects inventories totaling to Kshs.130,121,256.10. However, the balance could not be confirmed since stock sheets for the year were not presented for audit review. Further, the Fund did not hold

a stock taking exercise at the end of the financial year as required. Consequently, the accuracy and validity of the inventories balance of Kshs.130,121,256.10 reflected in the statement of financial position as at 30 June 2016 cannot be confirmed.

6. Payment Received in Advance

The statement of financial position as at 30 June 2016 reflects payments received advance totaling to Kshs.149,591,532. However, the dates when the payments were received by the Stores and Services Fund were not presented for audit review. Further, the bank statements were not provided to confirm whether they were indeed received. Under the circumstances, the balance of Kshs.149,591,532 denoted as payments received in advance as at 30 June 2016 cannot be confirmed.

7. Sale of Goods

The statement of financial performance for the year ended 30 June, 2016 reflects a balance of Kshs.96,639,911.34 while the supporting schedules presented for audit review reflected a balance of Kshs.100,274,267.44 thus resulting to a difference of Kshs.3,634,356 which has not been explained. In addition, the Fund did not maintain a sales ledger and therefore the source of the sales data could not be confirmed for the year ended 30 June 2016.

8. Missing Receipt Books

The statement of financial performance reflects total revenue of Kshs.96,639,911.34. However, receipt numbers MR 6654401 to 6654450 dated September 2015 to March 2016 and receipt numbers 6654351 to 6654400 dated April 2016 were not availed for audit review. Further, the management has not explained whether revenue collected from May to June 2016 was receipted using official receipts. In the circumstances, the total revenue balance of Kshs.96,639,911.34 included in the statement of financial performance for the year ended 30 June 2016 could not be confirmed.

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 misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services.

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

My responsibility is to conduct an audit of the Fund's 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 matter 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 Stores and Service 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

04 June 2018