

REPORT OF THE AUDITOR-GENERAL ON UWEZO FUND FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements for Uwezo Fund set out on pages 1 to 25, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of cash flows, statement of changes in net assets 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 do not express an opinion on the accompanying 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 appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Accuracy of the Financial Statements

(i) The first and final sets of financial statements for the year ended 30 June 2017 submitted for audit exhibited unexplained account balances movement as detailed below:

Account Name	Balance as per final set of financial statements	Balance as per the initial set of financial statements	Unexplained movement/adjustments
	Kshs.	Kshs.	Kshs.
Note 7:			
Constituency Administration Costs			
-Balance Brought Forward	46,121,430	145,211,430	99,094,832
-Unutilized Funds (Bank Balance)	52,785,423	52,348,640	436,783

Note 9: Loans to Groups	500,000,000	657,390,839	157,390,839
	295,738,028	285,099,061	10,638,967
- CBK Balance	1,126,785,244	1,114,572,531	12,212,713
- Balance in Main A/c			
- Balance in Repayment A/c			
Bank and Cash Balances	2,412,412,986	2,389,124,523	23,288,463
Current Liabilities	58,295,837	0	58,295,837

(ii) Further the current liabilities balance of Kshs.58,295,837 as at 30 June 2017 was not supported by any relevant documents.

In view of the above unexplained movement/adjustments in the account balances, the accuracy of the financial statements can not under the circumstances be confirmed.

2. Bank and Cash Balances

2.1. During the year under review, the Fund maintained bank accounts for each sub-county which were distributed over nine commercial banks and had bank balances amounting to Kshs. 1,475,308,695 as at 30 June 2017, and as disclosed in Note 11 to the financial statements. However, the management did not prepare bank reconciliation statements for the sub county treasuries bank accounts.

2.2. The following anomalies have also been noted with regard to bank and cash balances of Kshs. 2,412,412,986 as at 30 June 2017 as reflected in the statement of financial position and disclosed under Note 11 to the financial statements:

- (i) The main Co-operative Bank of Kenya account reconciliation statement reflects stale cheques totalling Kshs. 235,038 some dating back as far as June 2014. No explanation has given for this anomaly.
- (ii) The Fund had three accounts in Chase Bank for Machakos Constituency - Main Account, Loan Repayment Account and Administration Account with balances of Kshs. 2,834,972, Kshs. 6,220,652 and Kshs. 4,192 respectively, all totalling Kshs. 9,059,816 as of 30 June 2017. The total amount in these accounts as at the end of the previous financial year was Kshs. 3,901,940. It is, therefore, apparent the management continued to transact with Chase Bank even after the institution was placed under statutory management by the Central Bank of Kenya on 7 April 2016 thereby increasing the risk of loss

of the funds. Recovery of these amounts is contingent upon the bank reverting to its normal operations.

- (iii) Board of survey certificates as at 30 June 2017 and cash books for the nine sub counties treasuries bank accounts were not provided for audit examination.
- (iv) The bank and cash balances of Kshs. 2,412,412,986 as at 30 June 2017 included a balance of Kshs. 52,785,423 claimed to be amounts transferred to constituencies and which remained unutilized and cash in transit balance of Kshs. 175,500,000 as disclosed under Note 7 to the financial statements. However, the balances of Kshs. 52,785,423 and Kshs. 175,500,000 were not supported by any relevant and verifiable documents. Consequently, the validity and existence of the amounts as at 30 June 2017 can not be confirmed.
- (v) Bank balances schedules for some constituencies provided for audit had unexplained nil balances while related bank certificates reflected the following balances:

Name of Constituency	Main Account (Kshs.)	Administrative Account (Kshs.)	Repayments Account (Kshs.)	Total Kshs.
Langata	443,851.00	242,235.00	2,706,376.05	3,392,462
Tinderet	659,926	4,570	5,489,665	6,153,861
Kipkelion West	57,246.00	5,595.00	5,576,787.00	5,639,628
Mwatate			4,419,060.00	4,419,060
Total	1,160,723	252,400	18,191,888	19,605,011

- (vi) The balances confirmed by the bank for Kipkelion East were different from the amount used in the preparation of the financial statements.

Balance per financial statements in Kshs.	57,246	5,797	5,576,787
Balance per bank certificate in Kshs.	3,865,906	181,595	4,029,869
Unexplained difference in Kshs.	(3,808,660)	(175,798)	1,546,918

Under the circumstances, it has not been possible to ascertain whether all cash transactions made during the year were accurately processed and whether the balances of bank and cash of Kshs. 2,412,412,986 as at 30 June 2017 are complete and accurate.

3. Loans to Groups

The statement of financial position as at 30 June 2017 reflects outstanding loans to groups of Kshs. 3,931,876,732. As disclosed in Note 9 to the financial statements, the figure has been derived by taking the initial National Government capital grant amount of Kshs. 5,854,400,004 and netting off the amount of monies presumably held in the CBK and main bank accounts amounting to Kshs. 795,738,028 and loan monies held in the repayment account amounting to Kshs. 1,126,785,244 all of which were not supported.

Further, there were no debtors' ledgers detailing loans issued by the Fund since inception and repayments made over the years on account of any loans recovery. There was also no comprehensive loan listings and/ or aging analysis in support of outstanding loans.

Consequently, the accuracy, validity and recoverability of the groups loans balance of Kshs. 3,931,876,732 can not be confirmed.

4. Work-In-Progress

The statement of financial position reflects under current assets Work-In-Progress amounting to Kshs. 19,522,765. As disclosed in Note 10 to the financial statements, the amount represents 40% part payment in respect of an Enterprise Resource Planning (ERP) software procured and contracted for in the year 2015/2016. The supply, installation and commissioning of the software is yet to be made even though the 40%-part payment was made over two years ago.

Information available for audit indicates that the implementation of the ERP which was contracted at a sum of Kshs. 48,806,912 has been called off even though there is a valid contract between the Fund and the supplier. Further, the recoverability and utilization of the part payment of Kshs. 19,522,765 is doubtful given that the Fund management appears to have stopped the implementation of the software. The value for money received by the Fund in respect of the software can not under the circumstances be ascertained.

Further, contrary to the requirements of International Public Sector Accounting Standard (IPSAS) No. 31- Intangible Assets, the cost of the ERP software has been treated as work-in- progress and classified under current assets instead of non- current assets. No justification has been provided for this accounting treatment.

The validity, existence and accuracy of work-in-progress balance of Kshs. 19,522,765 cannot, therefore, be confirmed.

5. Administration Costs – Transfers to Constituencies

The statement of financial performance for the year ended 30 June 2017 reflects administration costs - transfers to constituencies figure of Kshs. 131,036,007 which was not supported by any documentary evidence. As disclosed in Note 7 to the financial statements, the figure has been derived after taking into account

unsupported opening balance figure of Kshs46,121,430 and transfers during the current year of Kshs. 313,200,000, respectively and reducing the total amount with the unsupported unutilized funds – bank balance of Kshs. 52,785,423 and cash in transit balance of Kshs. 175,500,000, respectively.

Under the circumstances, it has been not possible to verify and confirm the accuracy of administration costs - transfer to constituencies figure of Kshs. 131,036,007 for the year ended 30 June 2017.

6. Outstanding Imprests

The financial statements for the year ended 30 June 2017 at Note 12 shows outstanding staff imprests balance of Kshs. 5,385,476. However, the imprests register was not provided for audit review and imprests totalling Kshs. 807,760 were issued to persons whose details, personal numbers and job groups, were not indicated in the imprests schedule.

In addition, a total of Kshs. 1,176,998 was in respect to officers who have already left the service, making recovery doubtful. No provision for impairment of the same has been included in these financial statements.

Under the circumstances, it has not been possible to verify and confirm whether the balance of Kshs.5,385,476 as at 30 June 2017 is fairly stated.

7. Non-Disclosure – Contribution in Kind of Staff Compensation

The Fund has thirty two officers working on a full time basis drawn from various ministries and who continue to draw their salaries from their parent ministries. The financial statements of the Fund have, however, not taken into account the donation or contribution in kind received from the ministries in form of staff salaries of Kshs. 27,180,516 for the financial year ended 30 June 2017.

8. Board of Directors- Composition and Meetings

Out of the seven directors who served in the Board of the Fund during year under review, five were independent non-executive and four of the seven ceased being directors on 28 February 2017. There has been no replacement or extension of their terms which could easily impact on the strategic decision making of the Fund. Further, the Board held only three full board meetings contrary to the Code of Governance for State Corporations, 2015 which requires the Board of Directors to hold a minimum of four meetings.

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 misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Uwezo Fund ability to sustain services, 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.

The 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 Uwezo Fund 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 Uwezo 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

13 June 2018