

# **REPORT OF THE AUDITOR-GENERAL ON WOMEN ENTERPRISE FUND FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Women Enterprise Fund set out on pages 22 to 49, 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 have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of audit.

In my opinion, except for the effect 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 Women Enterprise Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Legal Notice No. 147 of 2004.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Remuneration of Directors**

(a) The Fund had a budgetary provision of Kshs.6,852,000 on remuneration of directors but spent Kshs.10,486,000 during the year 2016/2017 on the item resulting in an over expenditure Kshs.3,634,401 (53%). However, authority for reallocation of funds from other items to remuneration of directors or in support of the over-expenditure was not provided for audit examination.

(b) The remuneration of directors' expenditure of Kshs.10,486,401 includes an amount Kshs.960,000 paid to board members as sitting allowances for undertaking normal operational activities of approving loans to various groups. The expenditure also includes an amount of Kshs.1,107,200 paid to non-board members as sitting allowance for being in attendance of various board committee meetings.

The propriety of expenditure totalling Kshs.2,067,200 in respect of these allowances could not therefore be confirmed under the circumstances.

(c) Although the board had an approved annual calendar of meetings with five (5) scheduled full board meetings and twenty-five (25) scheduled committee meetings for the financial year 2016/2017, eighteen (18) full board meetings and fifty (50) committee meetings were held during the year. The board did not therefore adhere

to the corporate plan and consequently, subjected the Fund to unbudgeted expenditure of Kshs.3,634,401 on remuneration of directors.

## **2. Receivables from Exchange Transactions**

### **(i) Loss of Funds**

The receivables from exchange transactions balance of Kshs.2,323,541,431 includes an amount of Kshs.21,170,000 due from twenty constituencies but claimed to have been misappropriated by the employees. The amount also includes Kshs.3,100,000 and Kshs.6,300,000 due from Kwanza Constituency and Kisumu County respectively, which were misappropriated by employees in 2015/16 financial year.

No provision has however been made in the financial statements in respect of the above losses.

### **(ii) Non-performing Financial Intermediaries Loans**

The receivables from exchange transactions balance of Kshs.2,323,541,431 includes non-performing loans totalling Kshs.106,618,100 due from financial intermediary partners. Any provision that would be necessary in relation to this uncertainty has not been incorporated in the financial statements.

### **(iii) Doubtful Recovery of LPO Financing and CWEs Loans**

The receivables from exchange transactions' balance of Kshs.2,323,541,431 further includes loans relating to LPO Financing of Kshs.7,440,277 which were due and not paid as at 30 June 2017 and Constituency Women Enterprise Schemes (CWEs) of Kshs.65,135,500 with no repayments recorded during the year under review. Recoverability of these loans is doubtful since they have been in arrears for periods that are longer than the repayment periods stipulated in the loan agreements. Although the recovery of these loan balances is clearly doubtful, no provision has been made against them in the financial statements.

### **(iv) Unsupported Opening Balances**

The opening balances of LPO Financing and Pikipiki loans of Kshs.5,302,714 and Kshs.2,126,445 respectively were not analyzed. It has, therefore, not been possible to verify and confirm these balances as reflected in the financial statements.

### **(v) Outstanding Imprests**

The receivables from exchange transactions' balance of Kshs.2,323,541,431 includes outstanding imprests of Kshs.1,321,459 which ought to have been surrendered or otherwise accounted for on or before 30 June 2017 in accordance with regulation 93 of the Public Finance Management (National

Government) Regulations 2015. In addition, during the year under review, various officers were issued with multiple imprests amounting to Kshs.4,975,780 before accounting for the imprests previously issued to them. No explanation has been provided for this breach of the law.

### **3. Payables and Accruals**

Payables and accruals' balance of Kshs.29,895,361 includes an amount of Kshs.26,762,000 in respect of loans approved for various groups as of 30 June, 2017 but not disbursed for various reasons. However, the non-disbursement of funds after the approval did not constitute a liability because the funds were still with the Women Enterprise Fund as at 30 June, 2017. No explanation has been provided for this inappropriate accounting treatment of undisbursed funds.

### **4. Gratuity**

The gratuity fund was previously operated outside the Fund's financial records and as at 30 June 2016, the amount of cash held in the gratuity account was disclosed as Kshs.25,251,035 and no corresponding liability was shown in the financial statements for that period. In the year under review, both the cash and the liability for gratuity account were introduced in the financial records of the Fund but no detailed composition of the opening balance liability has been provided for audit examination. The respective comparative figures for 2015/2016 have not been restated in the financial statements for the year ended 30 June, 2017 to cater for the introduction of gratuity liability in the accounting records. As a consequence, the accuracy of the closing balance of gratuity liability amounting to Kshs.15,310,323 as at 30 June, 2017 could not be ascertained.

Further, the total gratuity expenditure for the year as reflected under Note 8 to the financial statements amounts to Kshs.10,640,300 while the detailed schedule provided in support of the expenditure amounts to Kshs.21,870,545 resulting in an unexplained difference of Kshs.11,230,245.

### **5. Communication Supplies and Service**

The communication supplies and services expense as disclosed in Note 7 to the financial statements of Kshs.5,684,446 includes staff airtime allowance amounting to Kshs.3,675,682 comprising of monies paid to staff on a monthly basis. This amount was not, however, subjected to tax in line with the income tax law during the year under review. No explanation has been provided for the non-compliance.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Women 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 qualified audit 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. There were no Key Audit Matters to communicate in my report.

## **Other Matter**

### **Financial Performance**

Although the Fund's financial performance improved during the year from a loss of Kshs.97,050,501 in 2015/2016 to a loss of Kshs.12,043,444 in 2016/17, its accumulated surplus continued to be on a downward trend from Kshs.520,274,021 in 2015/16 to Kshs.508,233,689 in 2016/17. The management has indicated that it is lobbying the National Treasury for funding of the Fund's operations but this has not been addressed to date.

### **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 Fund's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable 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**

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 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 entities or business activities of the 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**

**28 February 2018**