

REPORT OF THE AUDITOR-GENERAL ON WOMEN ENTERPRISE FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Women Enterprise Fund set out on pages 17 to 40, which comprise of the statement of financial position as at 30 June, 2019, and the statement of financial performance, the statement of changes in net assets, the 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 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 the Women Enterprise Fund as at 30 June, 2019, 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 Public Finance Management Act, 2012 and the Legal Notice No.147 of 2004.

Basis for Qualified Opinion

1. Receivables from Exchange Transactions

The statement of financial position as at 30 June, 2019 reflects a balance of Kshs.3,167,100,168 in respect of receivables from exchange transactions. Examination of records revealed the following anomalies:

1.1 Non-Performing Loans to Financial Partners

The balance of Kshs.3,167,100,168 in respect of receivables from exchange transactions includes non-performing loans totaling to Kshs.71,780,000 due from eight (8) financial intermediary partners. However, the management has not made any provision for bad debts as recovery is doubtful.

1.2 Doubtful Recovery of LPO Financing and CWEs Loans

The receivables from exchange transactions balance of Kshs.3,167,100,168 further includes loans relating to LPO Financing of Kshs.8,130,960 which were due but not paid as at 30 June, 2019 while an amount of Kshs.732,649,283 was due from the Constituency Women Enterprise Scheme (CWEs) and had been outstanding for more than one year. The balance of Kshs.732,649,283 includes an amount of Kshs.50,370,500 which has remained dormant during the year under review.

Recoverability of these loans is doubtful since they had been in arrears beyond their respective repayment periods stipulated in the loan agreements and the 1% provision for bad debt is inadequate to cover potential defaulters contrary to the Women Enterprise Fund (WEF) Credit Policy and Guidelines.

1.3 Unsupported Receivable Balance

The receivables from exchange transactions balance of Kshs.3,167,150,168 includes Pikipiki Loan Financing balance of Kshs.1,049,239 which has no detailed supporting analysis of the opening balance. The loan schedule provided shows the outstanding loan balance as at 30 June, 2018 of Kshs.949,500 which differs with the reported balance in the certified statements of Kshs.1,391,604. The variance has not been explained or reconciled. Further, the opening loans are indicated as having been issued on 30 June, 2018 and repayments done for thirteen (13) months in the year under review. This also has not been explained.

It has, therefore, not been possible to verify and confirm the accuracy and recoverability of the receivables from exchange transactions of Kshs.3,167,100,168 reflected in the financial statements as at 30 June, 2019.

2 Accuracy of the Cash and Cash Equivalents Balance

As disclosed in Note 17 to the financial statements, the statement of financial position reflects cash and cash equivalents of Kshs.1,249,736,527 which includes an amount of Kshs.151,308,747 held under Mpesa Account. However, verification of the Mpesa balance disclosed that an amount of Kshs.6,235,982 under the Utility Account balance has been excluded in the total balance. Management has not given any explanation or reconciliation for the omission.

Under the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.1,249,736,527 as at 30 June, 2019 could not be confirmed.

3. Ineligible Rental Expense

As disclosed in Note 14 to the financial statements, the statement of financial performance reflects a balance of Kshs.9,173,046 in respect of rental expenses. However, this expenditure includes an amount of Kshs.542,880 paid to the National Social Security Fund (NSSF) in two equal instalments on 21 January, 2019 and 18 April, 2019 for parking space. These payments were however, not made based on any valid lease agreement as the agreement in place was entered into on 1 January, 2017 and was valid for a period of twenty-four (24) months, thus rendering it invalid after 31 December, 2018.

Consequently, the validity of the rental expenses totalling Kshs.9,173,046 for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Women Enterprise Fund Management in accordance with ISSAI 130 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. There were no key audit matters to report in the year under review.

Other Matters

Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised based on various matters affecting the running of the Fund. The matters have remained unresolved and have not been deliberated on by the Public Accounts Committee.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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.

Basis for Conclusion

1. Un-Procedural Procurements

The statement of financial performance reflects an amount of Kshs.39,158,565 in respect of travel, conferences and accommodation. Examination of records revealed that the Fund procured conference services at a total cost of Kshs.3,588,780 for a two-days regional review meetings across the Country. The procurements were awarded without signed professional opinions from the Head of Procurement outlining the basis for recommendations for award as required by law. Management is therefore in breach of the law.

2. Employee Costs – Compliance with the Human Resource Policies

The statement of financial performance reflects an amount of Kshs.207,802,643 in respect of employee costs. This includes an expenditure on acting allowances amounting to Kshs.1,461,580 paid to ten (10) officers who were appointed on acting capacities during the year. The Officers, however acted for more than six months contrary to Public Service Commission (PSC) Human Resource Policies and Procedures Manual and Women Enterprise Fund Human Resource Policy. Further, acting allowances totalling Kshs.1,272,388 were paid to fourteen (14) ineligible staff

who were not within the allowable Job Grades 2 to 5, that is eligible for acting allowance but were in Job Grades between 6 and 8 which is not eligible for acting allowance in line with Women Enterprise Fund Human Resource Policy.

The Management is therefore in breach of the law.

3. Compliance with the Income Tax Regulations

As disclosed under Note 10 to the financial statements, the Fund incurred communication, electricity, water, and other supplies and services, expenditure amounting to Kshs.18,776,868 which includes staff airtime allowances amounting to Kshs.6,224,923 comprising of monies paid to staff on a monthly basis during the year. This amount was not, however, subjected to tax in line with the Income Tax Act and no explanation has been provided for the non-compliance.

Consequently, Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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 Conclusion on Effectiveness of internal control, risk management and governance section of my report, I confirm that, nothing else nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of a Functional Board of Directors

The term for the previous Board of Directors expired on 28 April, 2018 and the Fund operated throughout the year without a functional Board. This therefore, meant that the stewardship of the Fund lacked strategic guidance while some of the decisions made by the Management lacked approvals which could lead to lack of checks and balances critical for proper corporate governance.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective 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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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 Fund 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 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 applicable 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 ability 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 and 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

20 January, 2021