

REPORT OF THE AUDITOR-GENERAL ON IMARISHA NAIVASHA TRUST FOR THE YEAR ENDED 30 JUNE, 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Imarisha Naivasha Trust set out on pages 1 to 17, which comprise the statement of financial position as at 30 June, 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows 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 the 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 Imarisha Naivasha Trust as at 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Gazette Notice No.5368 of May, 2011.

Basis for Qualified Opinion

Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance totalling Kshs.15,047,527 as at 30 June, 2018 which in turn includes assets with a net book value of Kshs.5,000,000. The assets were donated to the Trust by the defunct Office of the Prime Minister in 2011/2012 financial year but records on their costs were reportedly not provided to the Trust by the Office.

The mode of valuation of the assets for their inclusion in the books of the Trust was not explained.

The fixed assets records provided for audit further indicated that the Trust owned two motor vehicles as at 30 June, 2018 which, however, carried private registration numbers and were fully depreciated though still in use. No explanation was provided for the failure to revalue the assets for inclusion in the financial accounts.

In view of these issues, the valuation and ownership by the Trust of the property, plant and equipment balance totalling Kshs.460,449 as at 30 June, 2018, could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Imarisha Naivasha Trust 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 the audit evidence 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. I have determined that there are no key audit matters to report in the year under review.

Other Matter

1.0 Uncertainty on the Status of the Trust

The statement of financial performance indicates that in the year under review, the National Government disbursed funds totalling Kshs.16,000,000 to the Trust. However, as previously reported, Gazette Notice No.5368 of May, 2011, which established the Trust, assigned it its own Board of Directors. However, in records maintained by The National Treasury, the Trust is denoted as a project under the Ministry of Environment and Forestry is therefore not recognized as an autonomous body that qualifies for separate budgetary funding.

Lack of clarity on the status of the Board may prevent the Trust from receiving budgetary allocations that match its mandate and raise doubts on sustainability of its operations.

2.0 Budgetary Control and Performance

During the year under review, the revenue received by the Trust totalled Kshs.16,000,000 against the approved budget totalling to Kshs.70,000,000 resulting to a shortfall of Kshs.54,000,000. In the circumstances, the Trust was not sufficiently funded to implement programmes and activities planned for the year.

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, I confirm that, except for the matters described in the Basis for Effectiveness and Lawfulness in Use of Public Resources section of my report, nothing 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

1.0 Undocumented Salary Structure

Examination of personnel costs records indicated that during the year under review, the Trust spent Kshs.9,079,375 on compensation of employees. However, the salary structure was not laid out in a policy document. In the circumstance, the validity and fairness of the expenditure could not be confirmed. Further, the Trust did not have sufficient technical staff required to execute its operations.

2.0 Improper Organization of the Board

During the year under review, the Board operated without a substantive work plan contrary to Governance Parameter 1.9 of the Mwongozo Code for State Corporations which requires the Board to develop and align its activities to an annual work plan. Further, the Board held three meetings only in the year and was therefore one short of the minimum four prescribed in the Code.

In addition, the Board had sixteen (16) members against the maximum of nine provided for in the Code. The large size of the Board compared oddly with its small staff establishment of only eight (8) employees. Further, contrary to the requirement set in the Code, none of the Board members was a financial expert to provide advice and insight on financial matters.

In view of these shortcomings, the Board may not provide effective leadership to the Trust.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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 matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Weak Internal Control

Review of the staff establishment indicated that the Trust had a very lean staff of eight (8) which comprised of the Chief Executive Officer, the Accountant, three Project Officers, an Office Assistant and two Drivers. The Accountant performed all the administration work, including procurement, financial recording and authorization. The Chairman of the Trust was also involved in operations as one of the bank signatories.

In the circumstances, internal check and other controls as well as the technical operations of the Trust were not properly established. As a result, the risk of irregular and ineffective use of resources was high.

Management blamed the shortcoming on lack of sufficient resources to recruit and retain sufficient numbers of qualified staff.

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 for 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 governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Trust to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to dissolve the Trust, or 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.

The Board of Director is responsible for overseeing the Trust's financial reporting process, reviewing the effectiveness of how the entity 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 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.
- 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 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 ability of the Trust 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 Trust 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 Trust to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

13 January, 2022