

REPORT OF THE AUDITOR-GENERAL ON IMARISHA NAIVASHA TRUST FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Imarisha Naivasha Trust set out on pages 18 to 34, which comprise the statement of financial position as at 30 June, 2019, 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, 2019, 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 Gazette Notice No.5368 of May 2011.

Basis for Qualified Opinion

1.0 Unconfirmed Implementation of Tree Planting Project

Records provided for audit, indicated during the year under review, that the Ministry of Environment and Forestry, acting on behalf of the Trust, awarded the supply, planting and maintenance of tree seedlings of various species to various contractors at a total cost of Kshs.8,755,500.

However, records showing how the suppliers were procured were not provided for audit. As a result, it was not possible to confirm whether the procurement process was regular, competitive and fair. Available information indicated that the appointed suppliers shared the same location address in Nairobi, which suggested that the entities may have been related.

Further, there were no records indicating that the Accounting Officer established an Ad Hoc Inspection and Acceptance Committee to inspect and review the supplies delivered by the contractors, to confirm their compliance with the terms and specifications of the contracts, as required by Section 48(1)(b) of the Act.

In addition, records indicating that the seedlings were supplied were not provided for audit. Further, audit verification of the sites targeted for tree-planting revealed the following unsatisfactory issues.

- i. The sites did not have the large quantities of seedlings reported in records as having been supplied. In most instances, the seedlings found were only about 5% of the supplies paid for;
- ii. The majority of the sites in public institutions had few if any of the seedlings reported to have been supplied to them and paid for;

- iii. The inspection indicated that in the community forest at Ndabibi area where 25,000 seedlings were said to have been supplied, only 1,000 seedlings or so, were planted;
- iv. In Lower Malewa where 20,000 seedlings of bamboo seedlings were on record as having been supplied and planted along River Malewa riparian area, only about 500 seedlings were planted.
- v. At Tulaga Primary School and Engineer Hospital reported to have received and planted 1000 tree seedlings, there were less than 10 seedlings planted.
- vi. In most institutions reported to have participated in the tree-planting activity, the areas set aside for the purpose were too small to accommodate the large number of seedlings shown in records to have been supplied and planted in the respective institutions.

In view of these issues, the occurrence, propriety and measurement of the tree planting activities and the reported expenditure totalling Kshs.8,755,0000, could not be confirmed.

2.0 Non-Current Assets

As similarly reported in the previous year, the property, plant and equipment balance totalling Kshs.15,047,527 as at 30 June, 2019 includes assets with a book value of Kshs.5,000,000. The assets were donated by the defunct Office of the Prime Minister during the 2011/2012 financial year but records on their respective costs were reportedly not provided to the Trust.

Management did not provide disclosure on the means used to value the assets in the financial statements for the year under review and as a result, the accuracy and validity of the valuation could not be confirmed.

3.0 Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance totalling Kshs.59,833,447 as at 30 June, 2019. However, the respective bank reconciliation statements were not provided for audit review. In addition, stale cheques totalling Kshs.257,609 reversed in the cash book were not reflected as payables as at 30 June, 2019. As a result, it was not possible to confirm whether the cash and cash equivalents balance totalling Kshs.59,833,447 as at 30 June, 2019 was fairly stated.

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.

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 Report 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

1.0 Lack of a Documented Salary Structure

Personnel records indicated that the Trust spent Kshs.8,189,477 on compensation of employees in the year under review. However, the expenditure was incurred without reference to a documented salary structure as the Trust had none. As a result, the validity and fairness of the salary payments could not be confirmed.

Further, the salary records indicated that income tax due on the payments was deducted at the rate of 10% for all staff instead of the graduated scale prescribed in the Income Tax Act. Therefore, the payments may have been made contrary to the law.

2.0 Costly Installation of Rain Water Harvesting Systems

Expenditure records indicated that the Trust paid Kshs.21,387,450 to various suppliers awarded contracts to supply and install rain water harvesting systems in (10) public institutions. However, records on the budgetary allocations and the processes followed in procuring the contracts were not provided for audit. Management indicated that the procurement was done by the Ministry of Environment and Forestry who also stored the records.

Each of the contracts entailed tapping rain-water from classroom roofs by installing gutters and directing the waters to four (4) 10,000 liters' plastic water tanks. Physical verification in six (6) out the ten (10) institutions found that the systems were installed at an average cost of Kshs.2,138,745 each. At the said price, the systems may have been too costly when viewed against prevailing market costs.

Market data analyzed during the audit indicated that each installation could have been done at Kshs.950,000. Therefore, the Trust may have overpaid by Kshs.1,188,745 for each installation, or by Kshs.11,887,450 for all ten.

In the circumstance, value for money may not have been obtained from the expenditure totalling Kshs.21,387,450 incurred on the installations.

3.0 Improper Organization of the Board

As similarly reported in the previous year, the Board of Directors operated without a substantive work plan in the year under review, contrary to the Mwongozo Code for State Corporations. The Code requires the Board to prepare an annual work plan and align its activities to the plan. In addition, the Board held only three meetings in the year which was one short of the minimum four prescribed in the Code.

Further, the Board had 16 (sixteen) members against the maximum of nine prescribed in the Code. The large Board stood out for its size as the Trust is a small entity with

only eight employees. Further, contrary to the Code, none of the Board members was a financial expert to provide advice and insights on financial matters affecting the Board.

In view of these anomalies, the organization of the Board may not provide effective stewardship of the affairs of 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 System

Audit review of staff records indicated that the Trust had a very lean staff of eight (8) comprised of the Chief Executive Officer, the Accountant, three project officers, an office assistant and two drivers. In addition to the financial duties, the Accountant performed administrative, procurement and authorized operational activities and transactions. Similarly, the Chairman of the Trust was involved in operations as one of the bank signatories.

As a result, internal check on transactions was weak and the oversight role of the Board may have been constrained. Further, the Trust did not have technical staff in all areas of its mandate.

In the circumstances, the risk of ineffective use of resources, and failure to attain the goals set for the Trust, was high.

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 Board of Directors

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Trust 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 dissolve the Trust 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.

The Board of Directors is responsible for overseeing the Trust's financial reporting process, reviewing the effectiveness of how the Trust 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 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 Trust's ability 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

14 January, 2022