

# **REPORT OF THE AUDITOR-GENERAL ON KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS (KIPPRA) FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Institute for Public Policy Research and Analysis (KIPPRA) set out on pages 1 to 24, which comprise of the statement of financial position as at 30 June, 2020, 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 Kenya Institute for Public Policy Research and Analysis as at 30 June, 2020, 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 Kenya Institute for Public Policy Research and Analysis Act, 2006 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Irregular Payment Use of Goods & Services**

As disclosed in Note 15 to the financial statements, the statement of financial performance reflects an amount of Kshs.92,169,000 in respect of use of goods & services expenditure which includes an amount of Kshs.19,155,000 under other general expenses. The general expenses balance includes an expenditure of Kshs.2,523,296 incurred during the financial year 2016/2017. However, the amounts had not included in the reported payables balance of Kshs.19,384,000 during the financial year 2018/2019 and had therefore not been examined.

In the circumstances, the validity of the expenditure amounting to Kshs.2,523,296 cannot be ascertained.

#### **2. Irregular - Provision for Impairment**

As reported in the previously year, included in Note 19 to the financial statements is provisions for impairment made on account of receivables from exchange transactions amounting Kshs.31,835,000. The provision arose from accrued projects income from various contracts with several organizations where there were disputes in the deliverables. However, information provided shows that out of the total debt impaired amounting to Kshs.31,835,000, a total Kshs.24,473,675 relates to losses that had been occasioned through breach of contractual obligations by the Institute which could have been avoided.

Consequently, the validity of the provision for impairment of Kshs.31,835,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Institute for Public Policy Research and Analysis 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 Matter**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020

## **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 Effective 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. Non-Compliance with the Income Tax, CAP 470**

As disclosed in Note 14 to financial statements, the statement of financial performance reflects research costs balance of Kshs.103,964,000 which included payments amounting to Kshs.15,842,940 made to various service providers for offering conference facilities. However, withholding tax amounting to Kshs.950,576 was not deducted and remitted to Kenya Revenue Authority in line with the Income Tax Act, Cap 470. No explanation was given for non-compliance, which might lead to interests and penalties being levied to the Institute.

In the circumstances, the Institute was in breach of the law.

## **2. Non-Compliance with the Public Finance Management Regulations, 2015**

Examination of the records revealed that the Institute made a commitment for the supply of various goods and services at a cost of Kshs.649,750 during the month of June, 2020. This was contrary to the Public Finance Management Regulations, 2015, Section 51(1) which states that all commitments for supply of goods or services shall be done not later than 31 May each year except with the express approval of the accounting officer in writing. There was no approval of the Accounting Officer in writing for the commitment.

Further, the Institute paid an amount of Kshs.1,815,484 for the purchase of twenty-four IPADs for its staff. Review of the procurement process revealed that the order was issued on 26 November, 2019 and the goods were delivered on 9 January, 2020. The items were inspected on 13 January, 2020 and taken charge on 30 January, 2020. This was more than 30 days after the issuance of the order contrary to Regulation 53 of the Public Finance Management Regulations, 2015 which provides that an order shall be valid for a period of thirty days from the date of issuance.

In the circumstances, the Institute was in breach of the law.

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 matters described in the Basis for Conclusion Report on Effectiveness of Internal Controls, Risk Management and Governance sections 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**

##### **1. Incomplete Fixed Asset Register**

The fixed asset register maintained by Institute was not up to date and lacked details such as the items description; location; serial number; date of purchased; source; cost price; additions; depreciations and disposal to enable their verification.

Consequently, the existence of an effective assets management system capable of safeguarding and ensuring proper custody of the assets cannot be established.

## **2. Imprest Control and Management System**

During the year under review, the Institute paid an amount of Kshs.40,348,708 as subsistence allowances to staff on various occasions through temporary imprests. However, the imprest register maintained lacked vital imprests information such as details of imprests holders, amounts issued, as well as issue, due and surrender dates. Out of the imprest amount of Kshs.40,348,708 issued during the year, only Kshs.8,455,900 had been captured in the register while the balance of Kshs.31,892,808 was not recorded in the register provided for audit review.

Under the circumstances it was not possible to confirm whether the controls over issuance of imprests were effective.

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 overall 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 the 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 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 Institute's ability to continue sustaining 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 Institute or to cease operations.

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.

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 Institute's financial reporting process, reviewing the effectiveness of how Management 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 Institute's ability to continue as a going concern or 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 Institute 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 Institute 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**04 February, 2022**