

# REPORT OF THE AUDITOR-GENERAL ON KENYA INSTITUTE OF SUPPLIES MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER, 2019

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Kenya Institute of Supplies Management set out on pages 13 to 34, which comprise the statement of financial position as at 31 December, 2019, and statement of comprehensive income, consolidated statement of cash flows, statement of changes in net assets, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution 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 effects 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 of Supplies Management as at 31 December, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS), and comply with the Public Finance Management Act, 2012 and the Supplies Practitioners Management Act, 2007.

### Basis for Qualified Opinion

#### 1.0 Variances Between the Ledgers and Trial Balance

The trial balance differed with the supporting ledger balance on five (5) items resulting in unexplained variances as follows: -

Item	Description	Trial Balance (Kshs.)	Ledger Balance (Kshs.)	Difference (Kshs.)
1	Asset Grant	499,277,487	490,850,903	8,426,584
2	Promotion and Advertisement	2,974,149	2,874,357	99,792
3	Workshop Expenses	4,231,580	4,060,156	171,424
4	Pension	1,537,656	1,867,391	-329,735
5	Salaries and Wages	28,667,876	26,800,485	1,867,391
	<b>Total</b>	<b>536,688,748</b>	<b>526,453,292</b>	<b>10,235,456</b>

Consequently, the accuracy of the financial statements for the year under review could not be confirmed.

## **2.0 Unsurrendered Imprest**

The statement of financial position and as disclosed under Note 20 to the financial statements reflects debtors and prepayments balance of Kshs.45,965,218 Included under this balance are related party debts-KISM staff of Kshs.1,279,885 being temporary imprests issued to two members of staff which has been outstanding since 31 December, 2018. Management has not effected recovery of the imprest. This is contrary to Regulation 93(6) of the Public Finance Management (National Government) Regulations which provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

Consequently, the fair statement of the reported debtors and prepayments balances of Kshs.45,965,218 as of 31 December, 2019 could not be confirmed.

## **3.0 Unsupported Expenditure**

The statement of comprehensive income and as disclosed under Note 14 to the financial statements reflects administration expenses of Kshs.34,210,937. Included in this amount is legal fees of Kshs.2,186,000. However, the Management provided supporting documents and information in support of Kshs.185,000 resulting in unexplained difference of Kshs.2,001,000. Further, included in the administrative expenses was expenditure of Kshs.196,531 in respect of decorations for which Management did not provide documents and information for audit review.

Consequently, the accuracy and completeness of the reported administration expenses of Kshs.34,210,937 for the year ended 31 December, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Management of the Kenya Institute of Supplies 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.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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**

#### **1.0 Unpaid Withholding Tax**

The statement of financial position reflects creditors and accruals balances of Kshs.88,353,488 which includes withholding tax payable to KRA of Kshs.26,825,005 that has been outstanding for over one year. The amount continues to attract interest and penalties with the continued delay in settlement. Management has not rendered any plausible reason for the failure to settle the taxes.

#### **2.0 Noncompliance with State Corporations Advisory Committee (SCAC) Circulars**

The Institute has continued to operate without having its Human Resource Policy instruments comprising of organizational structure, staff grading and establishment, career guidelines, human resource policy and procedures manual contrary to State Corporations Advisory Committee (SCAC) circular number OP/SCAC.9/21/1/1 of 15 May, 2017.

Consequently, the Management of Institute is in breach of the Law.

#### **3.0 Procurement Activities Outside E-procurement**

The Institute has not implemented the e-procurement system. This is contrary to the Executive Order No.6 of 2015 which requires all Public entities to migrate their procurements plans to the Kenya Government IFMIS e-procurement system.

Further, the Institute did not submit its procurement plan to the Public Procurement Regulatory Authority on procurement of planned activities contrary to the requirements of Executive Order No.2 of 2018.

Consequently, the Management of Institute is in breach of the Law.

#### **4.0 Procurement of Services**

A review of the records revealed that the Institute procured various goods and services amounting to Kshs.9,927,906 from various suppliers without having supply contracts in place. Further, there was no prequalification of suppliers for the year 2019.

Consequently, the Management of Institute is 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 on Effectiveness of Internal Controls, Risk Management and Overall 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**

#### **1.0 Weak Internal Control systems**

Review of the Institutes internal control system revealed that there was inadequate segregation of duties and the Procurement Manager resigned in June, 2019. The Procurement Manager has not been replaced at the time of the audit. Management has not demonstrated measures taken to strengthen the internal controls for effective management of resources. The risk of Management override of controls is high.

#### **2.0 Lack of Risk Management Policy and Risk Registers**

Review of the internal controls revealed that Management did not have in place formal risk management policies. Further, Management had not conducted risk assessment to identify potential risks that could impact on the operations of the Institute. This is contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

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 those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 Institute's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Management is aware of the intention to liquidate the Institute 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 are 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 overall 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.

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 overall 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 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 Institute'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 Institute 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 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**

**23 August, 2021**