REPORT OF THE AUDITOR-GENERAL ON KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.
The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Pipeline Company Limited set out on pages 63 to 121, which comprise of the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity, 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 Kenya Pipeline Company Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unvalued Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.97,186,140,519 as disclosed in Note 17 to the financial statements. The amount is made up of fair values of the assets determined by an independent valuer engaged by the Management in 2019, which have been adjusted for accumulated depreciation in the two years up to 30 June, 2021. However, several assets comprising freehold land, buildings, fibre optic cable and motor vehicles with a book value of Kshs.7,382,233,566 as at the time of valuation on 1 July, 2019 were not revalued by an independent valuer, and their current book value is based on the historical costs and previous revalued amounts adjusted for accumulated depreciation. This contravenes the requirements of the International Accounting Standard (IAS) 16 – Property, Plant and Equipment which provides that if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs.7,382,233,566 could not be confirmed.

2. Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.9,160,335,600 as disclosed in Note 23 to the financial statements. The receivables comprise of trade receivables, staff loans and advances, Value Added Tax (VAT) recoverable, prepaid expenses, refundable deposits, and other debtors. Review of the receivables revealed the following inaccuracies;

2.1 Unsupported Trade Receivables

Note 23 reflects gross trade receivables balance of Kshs.9,762,372,383. However, the supporting schedule reflects a balance of Kshs.8,782,049,049 resulting in a variance of Kshs.980,322,466 which was explained as a reconciling item. The reconciliation provided in support of the variance reflected a balance of Kshs.6,509,294 described as trade debtors' adjustment account and a balance of Kshs.2,234,957 in respect of system migratory balance respectively. However, the explanation and supporting documents for the two variances were not provided for audit review.

In the circumstances, the accuracy and completeness of trade receivables balance of Kshs.9,762,372,383 could not be confirmed.

2.2 Unsupported Staff Loans and Advances

The note also reflects staff loans and advances of Kshs.1,737,480,261 which includes car and house loans, salaries advances, payroll debtors, subsistence allowance advances and imprest all amounting to Kshs.1,789,049,726. The resulting variance of Kshs.51,569,465 was not explained or reconciled.

Under the circumstances, the accuracy and completeness of staff loans and advances balance of Kshs.1,737,480,261 could not be confirmed.

2.3 Long Outstanding and Unsupported Prepayments

Prepaid expenses amounting to Kshs.949,551,042 reflected in Note 23 to the financial statements includes an amount of Kshs.91,109,582 classified as vendor prepayments. Review of the prepaid amount revealed an amount of Kshs.56,106,581 which related to payments dated 30 June, 2019 and earlier, therefore had been outstanding for more than three (3) years with some having been made over ten (10) years ago, in 2011.

In the circumstances, the accuracy and completeness of trade and other receivables balance of Kshs.9,160,335,600 could not be confirmed.

2.4 Value Added Tax Recoverable

Note 23 to the financial statements reflects a Value Added Tax (VAT) recoverable balance of Kshs.2,029,844. A reconciliation of the opening balance as at 1 July, 2020 with monthly net position to the closing balance as at 30 June, 2021 reflected Kshs.198,101,524 and Kshs.43,821 in respect of Legacy system balance and Sun system upload balances respectively. The balances relate to tax credits due to the Company which Kenya Revenue Authority (KRA) was yet to move from the discontinued Legacy System (Simba System) to the ITAX System.

In addition, the reconciling entries includes Kshs.978,803,650 VAT credit expected from Kenya Revenue Authority which was not supported by any acknowledgement from Kenya Revenue Authority. Further, the balance includes an balance of Kshs.32,025,616 relating to withholding tax on interest credit which has not been explained.

In the circumstances, the accuracy and completeness of VAT recoverable balance of Kshs.2,029,844 could not be confirmed.

3. Misstated Work in Progress

The statement of financial position reflects property, plant and equipment balance of Kshs.97,186,140,519 which includes a balance of Kshs.216,920,335 relating to capital work in progress as disclosed in Note 17 to the financial statements. However, the balance differs with the supporting schedule provided for audit review which reflects a balance of Kshs.218,532,194 resulting in unreconciled variance of Kshs.1,611,859.

In the circumstances, the accuracy and completeness of capital work-in-progress balance of Kshs.216,920,335 could not be confirmed.

4. Cash and Cash Equivalents

The statement of financial position reflects bank and cash balances to Kshs.2,462,154,764. The balances were held in fourteen (14) local banks denominated in both local and foreign currency and cash at hand at 30 June, 2021. Review of bank reconciliation statements revealed a receipt in the bank statement not in the cash book in respect of NCBA balance of Kshs.12,684,319 which had been outstanding since 2018/2019 financial year.

Further the bank reconciliation statement for Cooperative Bank account reflected uncleared items amounting to Kshs.1,365,240 comprising of a receipt of Kshs.2,343,322 and a payment of Kshs.978,082 dated 23 November, 2020 which were not recorded in the cashbooks. No explanation was provided for long delays in recording the transactions.

in the circumstances, the accuracy and completeness of bank and cash balances of Kshs.2,462,154,764 could not be confirmed.

5. Provision for Bad and Doubtful Debts

The financial statements in Note 23 reflects provision for bad and doubtful debts at the beginning of Kshs.5,486,896,669 and Kshs.5,212,292,957 at the close of the financial year. This represents a net decrease in the provisions of Kshs.274,603,712 that should have been credited to the income statement. However, the statement of profit or loss and other comprehensive income was charged with a provision of Kshs.59,089,148 resulting in unexplained variance of Kshs.333,692,860.

In the circumstance, the accuracy of the provision for bad and doubtful debts of Kshs.59,089,148 charged for the year ended 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Pipeline Company Limited 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 audit 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

Encroached Company Land

Review of the freehold land documents revealed a piece of land located in Nakuru County with book value of Kshs.700,000,000 which measures 47.10 acres which had had been illegally encroached and permanent structures put up by the encroachers. According to the inspection and verification done by a valuer engaged by the Company in 2019 to undertake valuation of the Company assets, only five (5) acres valued at Kshs.75,000,000 was occupied by the Company, with the rest of parcel measuring 42.10 acres valued at Kshs.625,000,000 being occupied by the encroachers.

As a result, the ownership of the parcel which has been illegally encroached is threatened.

Other Information

The Directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

The other information does not include financial statements and my audited report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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. Loss on Leased Facilities

As disclosed in Note 7 to the financial statements, are direct costs of Kshs.2,911,487,391 in respect of pipeline maintenance. Included in the costs are lease payments to Kenya Petroleum Refineries Limited (KPRL) amounting to Kshs.1,209,256,319 for use of pipeline network, storage tanks and associated infrastructure during the year under review. A comparison of total lease costs against total lease income for the year revealed that the Company realised income amounting to Kshs.644,256,318 thereby resulting to a net loss on the lease of Kshs.565,000,001.

In addition, the lease agreement revealed that the lease payments were based on expenses incurred by KPRL during the year covered by the lease agreement. However, the Company was not in control of costs incurred by KPRL and therefore could institute measures that could minimise them in line with realisable income.

In the circumstances, the lease affected the overall performance of the Company and may need to be reviewed for efficiency.

2. Long Outstanding Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.9,160,335,600. Further, as detailed in Note 23 to the financial statements, the amount includes Kshs.106,656,301 in respect of prepaid construction costs which has been outstanding since 2007. Although a provision was made in the books of the Company in respect of the amount, no evidence of efforts to recover the same was provided for audit review.

In the circumstances, recoverability of the balance of Kshs.106,656,301 in respect of prepaid construction cost included in trade and other receivables balance could not be confirmed.

3. Un-Procedural Waivers

The Transport and Storage Agreement (TSA) between Kenya Pipeline Company (KPC) and the Oil Marketing Companies (OMC) provides for penalty charges when OMC products overstay in the KPC facilities. The penalty charge is one of the recognized revenue streams for the Company.

Review of billing records revealed that four (4) OMCs were billed and invoiced for overstayed product penalties in the period between 2018 to 2021. The revenues had been recognized in the books of the Company in their respective years of occurrence. However, during the year under review, penalties amounting to Kshs.495,942,077 were waived by the Board in a meeting held on 18 May, 2021. The waivers were not accompanied by requisite approval from the Cabinet Secretary for The National Treasury or the Cabinet as provided for under Regulation 148(6) and (8) of the Public Finance Management (National Government) Regulations, 2015, which requires any write off above Kshs.100,000 to be approved by the Cabinet Secretary and any write off above 1% of the entity's budget to be approved by the Cabinet. In addition, the waiver reported in the financial statements amounted to Kshs.529,641,166 resulting in unexplained variance of Kshs.36,699,089.

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

4. Incomplete Marine Loading Arm Project

The property, plant and equipment balance of Kshs.97,186,140,519 disclosed in Note 17 to the financial statements, includes work in progress costing Kshs.216,920,335 as at 30 June, 2021. The amount includes Kshs.17,084,749 relating to supply, installation, testing and commissioning of overhung marine loading arm at Kipevu oil terminal. The contract for the project was awarded to a company for a contract sum of Kshs.43,438,520 on 1 December, 2017 and signed on 18 April, 2018. The project commenced on 4 November, 2018 and was expected to take thirty-four (34) weeks and be completed on 2 May, 2019.

The project was intended to replace existing overhung marine loading arm to increase the discharge flow rate for the Dual-Purpose Kerosene (DPK) arm from 1700M^3/hr to 2500M^3/hr. According to the manufacturer, the recommended number of years for the existing loading arms had been surpassed hence the need to mitigate any risks of failure. Although materials were delivered to the site and expenditure amounting to Kshs.17,084,749 incurred, installations, testing and commissioning were not done.

The continued delay in installation poses the risk of failure since the operational period for the loading arms have been surpassed. Additionally, the initial contract period expired, and the subsequent extension granted to the contractor lapsed on 30 June, 2021 without a clear roadmap on how the project would be completed three (3) years since commencement.

In the circumstances, the value for money may not be realized on this project.

5. Unsupported Donations

Advertising and printing expenses amounting to Kshs.63,527,697 reflected in Note 11 to the financial statements includes Kshs.51,766,383 incurred on donations to various programs on communities for the financial year ended 30 June, 2021. Review of expenditure documents revealed that Company donated Kshs.18,859,250 to a charitable trust towards construction of Mount Kenya electric fence on 29 April, 2021.The donation was based on a request dated 24 March, 2021 from the Trust. However, the fencing project was not traced to the Corporate Social Investment (CSI) plan approved by the Board for the year. No documentary evidence in form of project committee minutes, site visit minutes, inspection reports and status report of the fence was provided for audit review.

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

6. Un-procedural Procurement of Consultancy Services

During the year under review, request for quotations were sent to four firms for labour relations services and consultancy services but later terminated as only one of the firms responded. The Company later appointed the firm that had responded for a contract sum of Kshs.2,900,000 under single sourcing method with a justification that time was limited for any other procurement method. However, the justification for both request for quotations and single sourcing procurement were not in line with Section 106(2)(a) of the Public Procurement and Asset Disposal Act, 2015 which requires that, the Accounting Officer of a procuring entity to give request for quotations only to such persons as are registered by the procuring entity and Section 60(1) of the Public Procurement and Asset Disposal Act, 2015.

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

7. Un-Procedural Procurement of Security Services

During the year under review, the Company procured provision of security services through direct procurement method. Review of documents relating to the tender revealed that an advertisement was placed on 3 November, 2020 for security services which was three months after contracts for existing services had expired. Two firms were found to be responsive. However, the tender process was terminated on grounds that the KPC regions to be guarded were segmented into six (6) sectors.

Further, the requirement for bidders to have presence in six sectors had not been included in the bid documents thereby raising doubts as to how it was concluded that the two bidders who qualified were not capable of covering all the sectors, and why no awards were made for the two sectors where the two bidders had presence as the Company retendered for the other sectors. Therefore, the use of direct procurements method for the provision of security services was not justified by the Management.

8. Irregular Procurement of Printing Consumables

The Company invited bids for supply of printing consumables comprising toners and cartridges through a restricted tender, where five (5) authorized dealers of HP printers in Kenya were invited. Three (3) bidders responded and were subjected to tender opening and preliminary evaluation process but were found non-responsive on grounds that they did not attach mandatory requirements when bidding. The supply was retendered, and the same bidders were invited to bid in a restricted tender. Upon evaluation, the tender was awarded two bidders at a cost of Kshs.11,564,151 and Kshs.33,066,244 respectively. However, use of restricted tendering method was not justified since the tender did not meet the conditions for use of restricted tendering method as provided for in the Act, given that toners and cartridges are not specialized items in nature.
In the circumstances, Management was in breach of the law.

9. Human Resources Matters

9.1 Un-Procedural Recruitment

Section 2.2.1. of KPC Human Resource policies and procedures provides that the grading structure, qualifications, and other requirements for recruitment into the Company are laid down in the Career Guidelines.

Review of staff recruitment during the year revealed appointment of an applicant who did not meet the required minimum qualifications for the position appointed to. According to the human resource records, the appointee to a General Manager position lacked requisite experience for appointment to the position both as required in the advertisement and as per the approved career guidelines for the Company.

In the circumstance, the suitability of the appointed applicant to the position was in doubt, as well as the objectivity of the recruitments.

9.2 Un-Procedural Promotions

During the year under review, the Company advertised internally and promoted several staff members. A review of the promotions revealed the following anomalies:

i) Three (3) vacancies were declared and advertised for the position of assistant engineer (operations) grade KPC 7. However, four (4) candidates were appointed at the end of the interview process.

ii) According to the advertisement placed for position of dispatch clerk grade KPC 10, six (6) vacancies were declared and advertised but twenty-one (21) candidates were appointed at the end of the interview process.

iii) Three (3) vacancies were advertised for position of chemist Grade KPC 6, but six (6) candidates were appointed at the end of the interview process. No explanation was provided for the appointment of extra officers over and above the declared and advertised vacancies.

iv) Review of personal files for a sample of employees promoted during the year revealed that four (4) members of staff had not attained the minimum qualification for the positions they were promoted to in accordance with the approved career guideline. These included academic qualifications, mandatory courses, and possession of practicing licenses.

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

9.3 Non-Compliance with the One Third of Basic Salary Rule

During the year ended 30 June, 2021 forty-three (43) employees were paid a net salary that is less than a third (1/3) of their basic pay in the month of June, 2021. This contravened Section 19(3) of the Employment Act, 2007. No plausible explanation was given for failure to comply with the law on payment of salaries and allowances.

In the circumstances, Management 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 procedures performed, except for the matters 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

1. Accounting for Accrued Expenditure

The general ledger for administration expenses for the year under review included accrual reversals of Kshs.19,958,429, Kshs.6,374,660 in respect of consultancy services. The reversals were in respect of expenses incurred in June, 2020 which are normally cleared upon payment. However, the payment was made on the same month of June, 2020 but the accrual was reversed in July, 2020. Similarly, information communication technology ledger for the year under review included June, 2020 accrual reversals amounting to Kshs.55,848,007, which had been erroneously included in the expenditure account for the year under review. Whereas the errors were corrected as post-audit adjustments, there was indication of weaknesses in the internal control system which failed to detect the error during processing of the transactions.

2. Dormant Human Resources Management Advisory Committee

The Company appointed six (6) members to the Human Resource Management Advisory Committee (HRMAC) on 18 September, 2019 in line with paragraph 2.13.1. of the Company Human Resource Policy and Procedure Manual. The committee is responsible for reviewing and advising the Managing Director on human resource management and development issues. However, during the year under review the committee did not hold any meeting to review and deliberate on human resource issues as stipulated in the human resource policies and procedures.

No satisfactory explanations were provided as to why the appointed committee was not able perform its mandate.

3. Dormant Corporate Social Investment Committee

The Managing Director through a letter dated 15 April, 2019 appointed six (6) members into Corporate Social Investment Committee to operationalize the corporate social investment policy. However, during the period under review the committee did not meet to review and deliberate CSI initiative plan for 2020-2021. The approved CSI plan for the period 2020/2021 was reviewed by only two (2) members drawn from the Company's foundation department. Further, there was no evidence that the committee had ever met to deliberate on matters pertaining to the corporate social investment during the year under review.

No explanation was provided on why the appointed committee members did not perform their mandate of reviewing the plan for the period under review.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

i. 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;

ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,

iii. The Company’s financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) 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 Company’s ability to continue to as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company 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 Company’s financial reporting process, reviewing the effectiveness of how the 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 controls 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 controls.

- 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 Company'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 Company 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 Company 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

02 September, 2022