REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA NATIONAL ENTREPRENUERS TRUST PLC

FOR THE YEAR ENDED 30 JUNE, 2024

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL ENTREPRENEURS SAVINGS TRUST PLC FOR THE YEAR ENDED 30 JUNE, 2024

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the 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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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 National Entrepreneurs Savings Trust Plc set out on pages 1 to 37, which comprise of the statement of financial position as at 30 June, 2024 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya National Entrepreneurs Savings Trust Plc as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Unsupported Motor Vehicle Repairs

The statement of profit or loss and other comprehensive income reflects administration costs of Kshs.130,003,853 as disclosed in Note 7 to the financial statements. Included in the amount is repairs and maintenance cost of Kshs.2,446,678 out of which Kshs.2,375,300 was in respect of repairs and maintenance of motor vehicles. However, support documents including pre- and post-inspection reports for Kshs.649,067 were not provided for review.

In the circumstances, the accuracy and completeness of motor vehicle repairs of Kshs.649,067 could not be confirmed.

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of Kenya National Entrepreneurs Savings Trust Plc Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects actual receipts and payments on a comparable basis of Kshs.181,652,800 and Kshs.118,435,100 resulting in under-utilization of Kshs.63,217,700 or 35% of the actual receipts.

In the circumstances, the under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Information

The Management is responsible for the other information set out on page iv to xliii which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors' Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Trust's 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 my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a 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 THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Irregular and Unapproved Board and Committee Meetings

The statement of profit or loss and other comprehensive income reflects administration expenses of Kshs.130,003,853. Included in the amount is director's emoluments of Kshs.21,481,834. The following anomalies were noted:

i. The director's emoluments were Kshs.21,481,834 against an approved budget of Kshs.18,388,400 resulting to an over-expenditure of Kshs.3,039,434 equivalent to 17% of the budget. However, the over-expenditure was not approved.
ii. Further, the Board held twelve (12) full Board meetings during the financial year, comprising of four (4) ordinary board meetings and eight (8) special board meetings. The Management did not provide justification or approval from the Cabinet Secretary – The National Treasury for the extra meetings as required the Circular from the Head of the Public Service OP/CAB.9/A dated 11 March, 2020.

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

2. Slow Progress of Attainment of Entity Mandate and its Predetermined Objectives

The Trust was incorporated on 9 December, 2021 and the Board members gazetted on 17th December same year. The Trust Deed and Rules signed on 12 November, 2021 identified the main purpose and objective of the Trust as provision of pension and other prescribed benefits for members upon their withdraw from the Scheme and relief for the dependents of deceased members in case of death. To meet the above purpose, the Trust shall hold the contributions paid to them by members and any other monies, investments and income and all lumpsums representing the same upon trust for the respective members for whose benefit such sums and other benefits are expressed to be payable in accordance with the scheme rules.

At the time of audit in November 2024, three (3) years since the incorporation, the Trust has not embarked on enrolling the public so as to achieve the mandate of provision of pension form members in the informal sector.

In the circumstances, the Trust may not justify the delay in implementation of the mandate despite being fully funded by The National Treasury.

3. Late Submission of Financial Statements

The financial statements for the Trust for the financial year 2023/2024 were submitted on 1 October, 2024 to the Office of the Auditor General for audit a day after the statutory timeline. This was in direct contravention of Section 68(2)(k) of the Public Finance Management Act, 2012 that gives a three-month allowance for preparation and submission of financial statements.

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

4. Failure to File Annual Returns with Registrar

Review of the Trust's statutory compliance documentation revealed that the Trust, having been incorporated on 9 December, 2021 is yet to file any return with the registrar of companies in line with the requirements of Section 705 of the Companies Act, 2015.

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

The audit was conducted in accordance with ISSAI 3000 and 4000. The standards require 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 comply 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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

Conclusion

As required by the Companies Act, 2015, I report, based on my audit, that except for the matter described in the Basis for Qualified Opinion, I confirm 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. Information given in the Directors' report on pages xli is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on pages 17 has been properly prepared in accordance with the Companies Act, 2015.

Responsibilities of the Management and the Board of Directors

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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Trust's ability to continue 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 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 comply 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 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 December, 2024