OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA NATIONAL SAFETY NET PROGRAM

FOR THE YEAR ENDED
30 JUNE 2015

MINISTRY OF LABOUR, SOCIAL SECURITY AND SERVICES
OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL SAFETY NET PROGRAM FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya National Safety Net Program set out on pages 9 to 18, which comprise the statement of assets as at 30 June 2015, and the statement of consolidated receipts and payments and statement of comparative 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, Section 8 of the Public Audit Act, 2003 and Financing Agreements Number 5287-KE between the International Development Association and the Government of Kenya dated 9 September, 2013. 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.

Management’s Responsibility for the Financial Statements

The Principal Secretary for the Ministry of Labour, Social Security and Services is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 7 of the Public Audit Act, 2003.

Auditor-General’s Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design


Promoting Accountability in the Public Sector
audit procedures that are appropriate in the circumstances, but not for the purpose of
expressing an opinion on the effectiveness of the Program’s internal control. An audit
also includes evaluating the appropriateness of accounting policies used and the
reasonableness of accounting estimates made by the management, as well as
evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis
for my qualified audit opinion.

Basis for Qualified Opinion

1. Consolidated Budget Shortfall

The cash transfer programmes under the Kenya National Safety Net Programme had a
consolidated budget of Kshs.19,295,533,932.00 expected from the following sources:

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Budget Amount Kshs.</th>
<th>Actual Amount Kshs.</th>
<th>Excess (+) / Shortfall (-) Kshs.</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Kenya grant</td>
<td>13,038,668,728</td>
<td>12,509,676,290</td>
<td>-528,992,438</td>
<td>4%</td>
</tr>
<tr>
<td>External financing</td>
<td>6,256,865,204</td>
<td>5,316,159,252</td>
<td>-940,705,952</td>
<td>15%</td>
</tr>
<tr>
<td>Miscellaneous Receipts</td>
<td>0</td>
<td>2,296,220</td>
<td>+2,296,220</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>19,295,533,932</td>
<td>17,828,131,762</td>
<td>-1,467,402,170</td>
<td>8%</td>
</tr>
</tbody>
</table>

The total actual receipts amounted to Kshs.17,828,131,762.00 resulting in a gross
shortfall of Kshs.1,467,402,170.00 or 8%. The shortfall of Kshs.940,705,952.00 in
external financing was attributed to non-requisition of funds for planned activities that
were not carried out while the shortfall of Kshs.528,992,438 under Government of Kenya
was attributed to non-release of exchequer from the National Treasury.

No reasons have been provided for non-release of Kshs.528,992,438.00 budgeted
funds from the exchequer and the failure to requisition for planned activities’ funds from
external financing of Kshs.940,705,952.00 has affected provision of services to the
intended beneficiaries.

2. Failure to Prepare Financial Statements

The consolidated financial statement under the National Safety Net Program (NSNP)
was not prepared in accordance with paragraph 1.3.14 of the International Public Sector
Accounting Standards (Cash Basis) which requires that financial statements of the
controlling entity be prepared line by line. Further, out of the six (6) programs under
NSNP, three programs did not have a separate financial statement namely; Older

2
Persons Cash Transfer Program, Hunger Safety Net Program and the Social Protection Secretariat as is required under paragraph 1.4.23 of IPSAS (Cash Basis).

In the circumstances, it has not been possible to confirm the accuracy of the figures consolidated in the Kenya National Safety Net Program as at 30 June 2015.

3. Cash Disbursements

i) Payments to Beneficiaries through Kenya Commercial Bank

Reconciliations received from the service provider - Kenya Commercial Bank with regard to cash disbursements to beneficiaries reflect amounts totalling Kshs.462,268,000.00 as refunds due to the Ministry of Labour from undisbursed cash for Orphans and Vulnerable Children (OVC), Older Persons Cash Transfer (OPCT), and Persons with Severe Disability (PWSD) for the period January 2015 to April 2015. The amount of Kshs.462,268,000.00 was refunded on 9 July 2015, two months after the stipulated due date set for refunds.

However, no interest was shown as having accrued from Kshs.462,268,000.00 held for two months by the bank.

ii) Payments to Beneficiaries through Postal Corporation of Kenya

During the financial year ended 30 June 2015 the Ministry of Labour remitted a total of Kshs.1,968,000,000.00 to Postal Corporation of Kenya for onward payment to beneficiaries under the Older Persons Cash Transfer Programme. However, no reconciliation was done showing the total payments to the beneficiaries and the refunds made to the Ministry as required in the mutual agreement between the Ministry and Postal Corporation of Kenya.

In the absence of the required reconciliations, the status of Kshs.1,968,000,000 remitted to Postal Corporation of Kenya and the payments therein could not be established.

4. Refunds due from the Postal Corporation of Kenya

Correspondence seen between the Ministry and the Postal Corporation of Kenya revealed that a total of Kshs.245,501,480.00 was owed by the Corporation out of which a total of Kshs.76,201,480.00 was confirmed through the bank statements as having been refunded as follows:

Refunds due from the Postal Corporation of Kenya

<table>
<thead>
<tr>
<th>Due date</th>
<th>Date paid</th>
<th>No. of Months O/S</th>
<th>Amount Refunded Kshs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount due</td>
<td></td>
<td></td>
<td>245,501,480.00</td>
</tr>
<tr>
<td>15/01/2015</td>
<td>03/08/2015</td>
<td>7</td>
<td>40,260,000.00</td>
</tr>
<tr>
<td>15/01/2015</td>
<td>09/11/2015</td>
<td>10</td>
<td>35,941,480.00</td>
</tr>
<tr>
<td>Balance O/S</td>
<td></td>
<td></td>
<td>169,300,000.00</td>
</tr>
</tbody>
</table>
No explanation was given as to why the outstanding balance of Kshs.169,300,000.00 had not been refunded by the stipulated due date of 15th day of the month following the close of the pay period.

Further, no interest appears to have accrued on the amount of Kshs.40,260,000.00 refunded six months after the September/December payment cycle as well as on the Kshs.35,941,480.00 refunded ten months after the September/December payment cycle as tabulated above.

5. Differences in Trial Balance and Financial Statement Balances

The balances reflected in the consolidated statement of receipts and payments for the Kenya National Safety Net Program differ with the balances in the Trial Balance in the following expenditure components:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation of Employees</td>
<td>45,669,911</td>
<td>45,050,711</td>
<td>619,200</td>
</tr>
<tr>
<td>Social security benefits in cash</td>
<td>12,169,989,110</td>
<td>15,305,446,770</td>
<td>3,135,457,660</td>
</tr>
<tr>
<td>Use of goods and services</td>
<td>1,330,523,925</td>
<td>1,584,417,311.38</td>
<td>253,893,387</td>
</tr>
<tr>
<td>Acquisition of Non-Financial Assets</td>
<td>391,102,462</td>
<td>404,122,370</td>
<td>13,019,908</td>
</tr>
<tr>
<td>Total</td>
<td>13,937,285,408</td>
<td>17,339,037,162.38</td>
<td>3,402,990,155</td>
</tr>
</tbody>
</table>

No explanation was given for the difference totalling Kshs.3,402,990,155.00 between the two sets of records. As a result, the accuracy of the consolidated financial statements could not be ascertained as at 30 June 2015.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya National Safety Net Program as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the financing agreement for the National Safety Net Program for Results between the Republic of Kenya and International Development Association - Credit Number 5287-KE.
Other Matter

1. Failure to Absorb Funds

The total budgeted transfer of funds to beneficiaries was Kshs.19,295,533,932. However, the actual cash transfer during the year was Kshs.13,945,805,684 (72.3%) of the total project budget receipts. The Program was not able to absorb Kshs.3,882,326,078 (32%) of the actual receipts.

No explanation has been provided for failure to utilize the funds received to meet the need of the given number of beneficiaries in the country.

2. DFID Transfers to Beneficiaries

The consolidated statement of receipts and payments reflects Kshs.3,441,798,502.00 as transfers to the beneficiaries from DFID grant under the Hunger Safety Net Program for the year ended 30 June 2015. However, records made available indicate that Kshs.3,637,558,730.00 was initially budgeted for transfer to the beneficiaries from DFID resulting in a difference of Kshs.195,760,228.00.

The difference of Kshs.195,760,228.00 between the budgeted and the amount actually transferred was attributed to failure to reach the targeted number of beneficiaries that was set at the beginning of the financial year due to lack of National Identity Cards (IDs) to enable the potential beneficiaries open bank accounts. As a result, intended beneficiaries are left suffering while project funds remain unutilized.

3. Verification of Beneficiary Disbursements

The sampled audit reports for specific projects under the Program revealed that cash disbursements to the enlisted beneficiaries were not utilized in accordance with the program objectives. Consequently, there is need for extensive in-depth verification of the beneficiary cash disbursements.

My opinion is however not qualified in respect to these matters.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL
Nairobi
23 February 2016