

REPORT OF THE AUDITOR GENERAL ON CHILD WELFARE SOCIETY OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Child Welfare Society of Kenya set out on pages 32 to 48, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows 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 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 matters described in the basis of qualified section of my report, the financial statements present fairly, in all material respects the financial position of Child Welfare Society of Kenya as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis).

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures carried out, I confirm that public money has been applied lawfully and in an effective way.

Basis of Qualified Opinion

1.0 Property, Plant and Equipment

The statement of financial position as at 30 June 2017 reflect property, plant and equipment balance of Kshs.2,145,456,438 out of which Kshs.1,151,073,276 relates to land and buildings. As previously reported, nineteen (19) parcels of land spread across the country had partial or no ownership documents. Although evidence availed by the Society shows that it is in the process of acquiring the ownership documents for some parcels of land, the process of resolving disputed land issues and court cases should be fast tracked to ensure security of the public assets.

Further, the Society did not maintain a proper fixed assets register for property, plant and equipment with necessary details such as; record of each parcel of land and each building and the terms on which it is held, with reference to, the conveyance, address, area, dates of acquisition, disposal or major change in use, capital expenditure, leasehold terms, maintenance contracts and other pertinent management details as required. Documents availed for audit indicated that only a listing of various properties was maintained.

In addition, the financial statements did not include a summary of fixed assets which should disclose the nature, value and status of the assets owned by the Society as at 30 June 2017.

In the circumstance, it has not been possible to confirm the accuracy, completeness of the property, plant and equipment balance of Kshs.2,145,456,438 reflected in the statement of financial position as at 30 June 2017.

2. Inventory and Stores Management

The financial statements for the year ended 30 June 2017 reflect inventories totaling Kshs.59,513,036. However, no stock take exercise was carried out at the end of the year to establish the accuracy of this balance as required.

In the circumstances, it has not been possible to verify and confirm the accuracy, nature, existence and value of the inventory owned by the Society as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Child Welfare Society of Kenya management in accordance with ISSAI 30 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 opinion.

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 matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that there were no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget and Budgetary Performance

1.1 Revenue

The Society received grants totaling Kshs.915,670,771 against estimated total of Kshs.917,520,771 resulting to a shortfall of only Kshs.1,850,000. The recurrent vote was allocated Kshs.480,800,000 while development vote was allocated Kshs.298,650,000 with an additional Kshs.100,000,000 reserved for Orphans and Vulnerable Children (OVC). The Society also received grants from donor such as UNICEF Kshs.10,000,000 against Kshs.32,991,800 in 2015/2016, Nakuru Lapsetry Kshs.17,100,400 etc, all totaling Kshs.32,026,805 and other incomes from investments totaling Kshs.4,243,966 as shown below:

Revenue head	Budget Kshs.	Actual Kshs.	Excess/(shortfall) Kshs.	Excess/(shortfall II) %
Government grants - Recurrent	481,250,000	480,800,000	(450,000)	(0.09)
Government grants - Development	300,000,000	298,600,000	(1,400,000)	(0.47)
OVC development	100,000,000	100,000,000	0	0

Other grants	32,026,805	32,026,805	0	0
Other income	4,243,966	4,243,966	0	0
Total	917,520,771	915,670,771	(1,850,000)	(0.2)

1.2 Expenditure

Expenditure analysis indicates that the Society had budgeted to spend a total of Kshs.913,144,922 but actual expenditure amounted to Kshs.868,589,833 and thereby underspent the budgeted amount by Kshs.44,555,089 or 5% as tabulated below:

Expenditure	Budget Kshs.	Actual Kshs.	Over/Under (-) Kshs.	Over/Under (-) %
Compensation of employees	300,000,000	266,662,658	-33,337,342	-11)
Directors expenses	2,500,000	2,548,775	48,775	2
Administrative expenses	125,500,000	105,863,763	-19,636,237	-16
Foster Care & Guardianship Programmes	20,000,000	11,205,477	-8,794,523	- 44
Adoption Programme	12,000,000	297,925	-11,702,075	- 98
OVC Development	131,894,922	129,793,075	-2,101,847	- 2
Development Budget	300,000,000	334,624,686	34,624,686	12
Capital expenditure	21,250,000	17,593,474	-3,656,526	- 17
Total	913,144,922	868,589,833	- 44,555,089	(5)

The under expenditure of Kshs.44,555,089 was explained as a deliberate effort to ensure that at all times the Society had emergency response/rescue funds to cater for mainly adoption programme where Kshs.11,702,075 or 98% was saved, foster care and guardianship programmes where Kshs.8,794,523 or 44% was saved. The over expenditure of Kshs.34,624,686 or 12% under the development budget was attributed emergency acquisition of additional capital items such as beds, mattresses, utensils etc.

The Society should therefore consider budgeting for contingencies to avoid forced savings on specific budgetary items.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control such as management determines is necessary to enable the preparations of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Society's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statement to the Auditor-General in accordance with the provision of Section 47 of the Public Audit Act 2015.

Those charged with governance are responsible for overseeing the Society's financial reporting process. **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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 of Kenya. 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Society's 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 Society'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 Society 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 of the Society's activities 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the State Corporations Act, I report based on the 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 Society, so far as appears from the examination of those books; and
- (iii) The Society's financial statements are in agreement with the accounting records.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

05 July 2018