

# **REPORT OF THE AUDITOR-GENERAL ON CHILD WELFARE SOCIETY OF KENYA FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Child Welfare Society of Kenya set out on pages 1 to 24, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, the statement of changes in net assets, the 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 Child Welfare Society of Kenya as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Child Welfare Society of Kenya Order, 2014 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Unsupported Expenditure Adjustments**

The statement of financial performance reflects an expenditure of Kshs.245,903,942 under Orphans and Vulnerable Children (OVC) development which, as disclosed in Note 11 to the financial statements, includes an amount of Kshs.127,059,778 related to Temporary Places of Safety. However, journal entries and supporting documents for the adjustment of Kshs.32,279,721 from the initial reported amount of Kshs.94,780,057 were not provided for audit.

Consequently, the accuracy of the expenditure of Kshs.127,059,778 reported for Temporary Places of Safety could not be confirmed.

#### **2. Property, Plant and Equipment**

The statement of financial position reflects a balance of Kshs.2,853,099,079 under property, plant and equipment. The following observations were made regarding the balance:

##### **2.1 Land Without Ownership Documents**

The reported property, plant and equipment balance includes an amount of Kshs.1,151,313,276 relating to land. However, as previously reported, nineteen (19) parcels of land spread across the country had no ownership documents. Although evidence provided by the Society indicated progress in acquiring the ownership documents for some parcels of land, disputes and Court cases concerning the land parcels had not been settled.

Further, the Society did not provide for audit review a comprehensive fixed assets register for land and buildings with necessary details such as; record for each parcel of land and each building and the terms under 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 details as required under Regulation 143(2) of Public Finance Management Regulations, 2015.

In the circumstances, it has not been possible to confirm the accuracy, existence and completeness of the property, plant and equipment balance of Kshs.2,853,099,079. It could also not be confirmed whether Management had applied adequate measures to safeguard the Society's assets.

## **2.2 Unsupported Additions to Property, Plant and Equipment**

As disclosed in Note 12 to the financial statements, additions to property, plant and equipment amounted to Kshs.372,905,970 during the year under review. However, payment vouchers in support of the purchase of the assets totaling Kshs.48,423,043 relating to a borehole (Kshs.3,966,226); parking bay (Kshs.2,289,800); computers and accessories (Kshs.5,898,000); furniture and equipment (Kshs.2,847,000) and motor vehicle (Kshs. Kshs.33,422,017) were not provided for audit.

Although Management explained that the payment vouchers were missing from the Society's offices and the matter had been reported at Langata Police Station, the outcome of the investigations had not been communicated.

In the circumstances, it has not been possible to confirm the accuracy and validity of the reported property, plant and equipment balance of Kshs.2,853,099,079.

## **3. Inventories**

The statement of financial position reflects an amount of Kshs.2,894,020 in respect of inventories which, as disclosed under Note 14 to the financial statements, related to beddings and cutlery. However, stock taking sheets in support of the balance were not provided for audit.

Consequently, it has not been possible to confirm the accuracy and completeness of the reported inventories balance of Kshs.2,894,020.

## **4. Unreconciled Variance in Receivables**

The statement of financial position reflects a receivables balance of Kshs.6,136,717 which, as disclosed in Note 15 to the financial statements, comprised deposits refundable and staff debtors of Kshs.827,525 and Kshs.5,309,192 respectively. However, the reported receivables balance of Kshs.6,136,717 differed with the ledger balance of Kshs.7,196,241 by an unexplained difference of Kshs.1,059,524.

Consequently, the accuracy and completeness of the receivables balance of Kshs.6,136,717 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Child Welfare Society of Kenya 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. I have determined that there are no key audit matters to communicate in my report.

### **Other Matter**

#### **Budgetary Control and Performance**

The Society had an approved budget of Kshs.935,424,000 for recurrent expenditure and OVC development programmes. However, actual expenditure amounted to Kshs.752,519,697 resulting to under expenditure of Kshs.182,904,303 or 19.6%. The under-expenditure may have impacted negatively on service delivery. Further, the Society had an approved projects development budget of Kshs.281,500,000 against an actual expenditure of Kshs.312,026,743 resulting to an over expenditure of Kshs. 30,526,743 or 11%. The Management has not explained the source of the extra funding.

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

### **Conclusion**

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. Delayed Completion of Projects and Irregular Variations

The reported property, plant and equipment balance of Kshs.2,853,099,079 includes an amount of Kshs.1,381,433,046 relating to construction works in progress. However, most of the Projects did not have a specified completion period except the Proposed Foster Care Centre Project in Joska which had a completion period of 52 weeks from 4 April, 2014. The project had not been completed by the time of the audit in April, 2020. In addition, cost variations ranging from 4.7% to 199% from the initial estimated costs of the Projects were noted as analyzed below:

	<b>Project Name</b>	<b>Initial Project Cost Estimates (Kshs.)</b>	<b>Project Budget Estimates 2018/19 (Kshs.)</b>	<b>Variation Percentage</b>
1	Proposed Foster Care Centers CWSK Isiolo	357,000,000	665,052,012	86%
2	Proposed Foster Care Centers CWSK Nanyuki	394,971,904	613,363,838	55%
3	Proposed Foster Care Centers CWSK Mama Ngina	258,000,000	593,560,457	130%
4	Proposed Foster Care Centers CWSK Murang'a	211,000,000	494,866,167	136%
5	Proposed Foster Care Centers CWSK Joska	300,000,000	628,766,776	110%
6	Proposed Foster Care Centers CWSK Bungoma	218,021,007	465,255,303	113%
7	Proposed Foster Care Centers CWSK Embu	147,432,032	440,752,481	199%
8	Proposed Foster Care Centers CWSK Kisumu	371,000,000	615,452,481	66%
9	Proposed Foster Care Centers CWSK Bomet	155,755,914	436,452,481	180%
10	Proposed Foster Care Centers CWSK Kisii	220,444,635	241,000,000	9%
11	Proposed Foster Care Centers CWSK Nyahururu	217,800,000	228,000,000	4.7%
12	Proposed Foster Care Centers CWSK Lodwar	218,250,000	433,252,481	98%
13	Proposed Foster Care Centers CWSK Baringo	218,100,000	419,252,481	92%
14	Proposed Perimeter Wall CWSK HQS	11,400,000	14,775,000	29.6%

No evidence was provided that the procedure and conditions for variation of contracts provided under Section 139 (1), (2), (3) and (4) of Public Procurement and Asset Disposal Act, 2015 were observed. In addition, the contract price for some of the Projects had increased by more than 25% contrary to Section 139(5) of the Public Procurement and Asset Disposal Act, 2015 which provides that where variations result in an increment of the contract price by more than twenty-five percent, such variations shall be tendered for separately. Further, the stalled projects and uncertainty in project completion timelines may lead to further cost escalations.

In the circumstances, the Society was in breach of law and the regularity and value for money on the expenditure could not be confirmed.

## **2. Non-Compliance with Reporting Guidelines**

Progress on follow up of audit matters reported in the prior year were not provided in the financial statements contrary to the reporting guidelines issued by the Public Sector Accounting Standards Board (PSASB).

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 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. Lack of Board of Directors**

Section 7(i) of the Child Welfare Society of Kenya Order, 2014 provides that the Management of the Society shall be vested on a Non-Executive Board consisting of a Chairman and six (6) Members with the Chief Executive Officer of the Society as the Secretary. However, during the financial year 2018/2019, the Society operated without a Board of Directors.

#### **2. Non- Appointment of an Audit Committee**

The Society did not have an Audit Committee as required under Section 73(5) of the Public Finance Management Act, 2012, which provides that every national government public entity shall establish an Audit Committee whose composition and functions shall be as prescribed by the Regulations. The Audit Committee forms a key component in the governance process by providing an independent expert assessment of the activities of top management, the quality of the risk management, financial reporting, financial management and internal audit to the top Management.

In the circumstances, the effectiveness of the internal controls, risk management and overall governance for the Society could not be confirmed.

### **3. Inadequate Information Technology (IT) Internal Controls**

The Society did not have an IT Strategic Committee, a formally approved IT Security Policy, an IT Continuity Plan and a Disaster Recovery Plan. Non-establishment of an IT Strategic Committee at the Board level may have resulted in IT governance not being addressed adequately. In addition, data confidentiality, integrity and availability as well as continuity of operations in case of a disaster could not be confirmed.

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 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 Public Sector Accounting Standards (Accrual Basis) 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 governance.

In preparing the financial statements, Management is responsible for assessing the Society's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of the intention to terminate the Society 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.

Those charged with governance are responsible for overseeing the Society's financial reporting process, reviewing the effectiveness of how the entity 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**

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 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 Society's 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 Society's ability to continue as a going concern or to sustain its services. 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 or to sustain its services.
- 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 Society 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.





**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**19 July, 2021**