

REPORT OF THE AUDITOR-GENERAL ON KENYA SCOUTS ASSOCIATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Scouts Association set out on pages 2 to 39, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, 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 Kenya Scouts Association as at 30 June 2018, 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 Act of parliament Cap 219 of the Laws of Kenya.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Parcels of Land Without Title Deeds

As reported in the previous year, property plant and equipment balance of Kshs.1,816,961,140 as at 30 June 2018 includes land valued at Kshs.1,663,800,000 as disclosed in note 34 to the financial statements. Included in the figure of Kshs.1,663,800,000 are 14 parcels of land with book values totaling Kshs.78,956,800 located in Nyeri, Muranga, Kiambu, Machakos, Uasin Gishu, Bungoma, Busia, Siaya, Mombasa and Kilifi Counties which do not have title deeds. The particulars of the land parcels and their corresponding values are as tabulated below:

	Land Parcel	Hectares	Location	Value (Kshs.)	Condition
1	Bungoma Scouts Centre	2.08	Bungoma County	3,500,000	Unfenced
2	Busia Camp site	0.41	Busia County	600,000	Fenced
3	Kiambu Kamuchege	1.21	Kiambu	1,200,000	Undeveloped and unfenced

4	Kiambu Scouts Association	0.13	Kiambu County	56,800	Undeveloped and unfenced
5	Kiambu Scouts Center	0.09	Kiambu County	15,000,000	Yet to be determined
6	Kilifi Campsite	0.81	Kilifi County	3,000,000	Developed and fenced
7	Machakos Camp site	4.05	Machakos County	5,000,000	Developed and fenced
8	Miritini Scouts Site	6.31	Mombasa County	24,800,000	Unfenced and Encroached on
9	Muranga Scouts Center	0.30	Muranga County	3,900,000	Fenced
10	Baden Powell Memorial Park and Cemetery	0.75	Nyeri County	14,800,000	Developed and fenced
11	Nyeri Scouts Center	0.32	Nyeri County	3,000,000	Developed but not fenced
12	Kaiyaba Campsite Mathira West	0.21	Nyeri County	1,500,000	Developed and fenced
13	Siaya Scouts Center	0.81	Siaya County	1,000,000	Developed and fenced
14	Uasin Gishu Scouts Center	8.07	Uasin Gishu County	1,600,000	Fenced
	Total	25.55		78,956,800	

Consequently, these parcels of land are at risk of encroachment by squatters and land grabbers.

1.2 Parcels of Land Omitted from the Financial Statements

Further as previously reported the property plant and equipment balance of Kshs.1,663,800,000 excludes undetermined value of twelve (12) parcels of land owned by the Association located in Bungoma, Kericho, Kisumu, Kwale ,Laikipia, Machakos, Meru, Nakuru and Nyeri counties as tabulated below. The acreage for some of the parcels is yet to be established.

Land Omitted from the Financial Statements

	Land Parcel	Hectares	Location/ County	Condition
1	Tulienge Scouts Centre	2.83	Bungoma	Unfenced
2	Nyandhiwa Campsite	Undetermined	Homa Bay	Encroached

3	Kipkelion	Undetermined	Kipkelion	Unfenced
4	Kisumu	1.50	Kisumu	Fenced
5	Kwale	Undetermined	Kwale	Unfenced
6	Nanyuki Scouts Center	Undetermined	Laikipia	Unfenced
7	Kyuso Scouts Office	0.25	Machakos	Unfenced
8	Kuami Campsite	40.47	Meru	Unfenced
9	Hyrax Hill Campsite	Undetermined	Nakuru	Unfenced
10	Honi Scouts Campsite	Undetermined	Nyeri	Unfenced
11	Kabiruini Campsite	10.00	Nyeri	Unfenced
12	Nyeri International Scouts Conference Centre	2.09	Nyeri	

Although the management is aware of the above anomaly, no evidence of any steps being taken to value the land was availed for audit review. In the circumstances it has not been possible to confirm the accuracy, validity and completeness of property, plant and equipment balance of Kshs.1,816,961,140

2.0 Cash and Cash equivalent

The statement of financial position reflects cash and cash equivalent balance of Kshs.128,063,193 as at 30 June 2018 which includes bank balances totaling Kshs.1,453,443 at Barclays Bank of Kenya and whose certificates of cash balance and bank reconciliation statements as at 30 June 2018 were not availed for audit review.

Consequently, the validity and completeness of cash and cash equivalent balance of Kshs.128,063,193 as at 30 June 2018 could not be ascertained.

3.0 Statement of Cash Flows

The statement of cash flows for the year ended 30 June 2018 could not be confirmed as the net increase in cash and cash equivalents of Kshs.39,979,015 differs with the recomputed net increase figure of Kshs.52,743,277 giving an unexplained /unreconciled variance of Kshs.12,764,262. The management has not provided any explanation for the variance. It has therefore not been possible to confirm the accuracy and completeness of the statement of cash flows and the cash and cash equivalent balance for the year ended 30 June 2018.

4.0 Net Profit from Shop

The Statement of Financial Performance reflects Kshs.5,931,860 being net profit from shop as at 30th June 2018. This represents a 62% drop from the previous year's net profit from shop of Kshs.15,580,875. The Association has explained that the loss was from theft of closing stock. In the circumstances it has not been possible to confirm the accuracy, validity and completeness of net profit from shop figure of Kshs.5,931,860 for the year ended 30 June 2018. Further there is need for the management to re-think on instituting a forensic

audit given the status of these financial statement to unearth if any fraudulent activities perpetuated by officers.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Scouts Association 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 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

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 Qualified Opinion 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.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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 Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Service or to cease operations, or have no realistic alternative but to do so.

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 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 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 Association'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 Association 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 Association 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.



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

Nairobi

09 April 2019