

REPORT OF THE AUDITOR-GENERAL ON SPORTS, ARTS AND SOCIAL DEVELOPMENT FUND FOR THE YEAR ENDED 30 JUNE, 2019 – STATE DEPARTMENT FOR SPORTS

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Sports, Arts and Social Development Fund set out on pages 1 to 21, which comprise the statement of financial Position as at 30 June, 2019, 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 Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Sports, Arts and Social Development Fund 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 Sports Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Disbursements

Note 9 to the financial statements reflects Kshs.1,362,694,433 being disbursements to various sporting federations and other sports organizations to support sports and arts developments at Kshs.1,352,548,048 and Kshs.10,146,385 respectively. Although the funds were disbursed for specific events, no expenditure returns and receipt confirmations were availed for audit verification.

In the circumstances, it was not possible to confirm whether the amount was actually received by the stated beneficiaries.

2. Disbursements to Kenya Open Golf Limited

The statement of financial performance reflects Kshs.1,362,694,433 as grants and subsidies comprising of disbursements to sports federations for sports and arts developments out of which Kshs.250,140,000 was disbursed to Kenya Open Golf Limited. It was, however, observed that Kenya Open Golf Limited is a limited Company and had not been registered with the Commissioner of Sports as required in order to qualify for funding.

In the circumstances, the disbursement of Kshs.250,140,000 to the Kenya Open Golf Limited is therefore irregular and not a proper charge to public funds.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Sports, Arts and Social Development Fund 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 judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budget Control and Performance

The statement of comparative budget and actual amounts reflects an approved receipts budget and actual on comparable basis of Kshs.8,525,000,000 and Kshs.8,134,586,819 respectively resulting to an under-funding of Kshs.390,413,181 or 5 % of the budget. Similarly, the Fund expended Kshs.1,371,064,317 against an approved budget of Kshs.8,525,000,000 resulting to an under-expenditure of Kshs.7,153,935,683 or 84% of the approved budget. Although Management has explained that the underspending arose because the Fund operated only for the last two quarters of the year under review, the huge under absorption, affected the planned activities and impacted negatively on service delivery to the public which is an indication of the Fund's failure to fulfill its mandate of supporting the development and promotion of sports and arts, besides enhancing social development.

2. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board templates and firmed by The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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 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. Failure to Execute the Fund's Mandate

The Sports Act, 2013 stipulates that the Fund should offer support to the sporting organizations in terms of training and capacity building on key areas such as Government Regulations, Public Financial Management Act, 2012, and Public Procurement and Asset Disposal Act, 2015. During the year under review, no training was conducted to sports federations.

In the circumstances, the Management did not execute its mandate fully as provided under the statute and the funds disbursed during the year may not have been utilized within the provisions of the law.

2. Value for Money for Disbursed Fund

According to the Public Finance Management (Sports, Arts and Social Development Fund) Regulations, 2018, the Fund is responsible for monitoring the use of funds disbursed to sporting organizations. The Fund disbursed a total of Kshs.1,362,694,433 to various federations and sports organizations. However, it was noted that the Management did not carry out any monitoring activity on the use of disbursements during the year under review as the Fund lacked adequate staff.

In the circumstances, it has not been possible to confirm whether the funds were utilized for the intended purposes or value for money was obtained.

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 Audit Committee

The Fund did not constitute any Audit Committee during the year under review as required. In the absence of an Audit Committee, the operations of the Funds were not reviewed. The various departments and sections such as finance, human resource, IT and administrations were not evaluated during the year ending 30 June, 2019.

Consequently, the Management may not have instituted adequate structures to ensure proper and adequate internal controls exist and are effective to safeguard public resources.

2. Lack of a Substantive Chief Executive Officer

The Fund has been operating without a substantive Chief Executive Officer (CEO) since inception in the year 2018. However, an acting CEO was appointed vide Letter Ref. SDSD 261/VOL.I. dated 12 February, 2019 but the appointment expired on 30 June, 2019. No renewal of the same has been done nor any process of recruitment initiated to fill the position.

Lack of a substantive CEO may have a negative impact and hamper the operations and functionality of the Fund.

3. Lack of Policy Documents

The Fund has not developed several crucial policy documents to guide its operations such as strategic plan, human resource policies, IT strategies, internal control manuals, and accounting manuals.

In absence of such key policy documents and lack of a strong internal control system, the Fund may not effectively execute its mandate.

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 controls, 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 Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund 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 manner.

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 review is planned and performed to express a conclusion with limited assurance as to 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 review 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 applicable 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 Fund's ability to continue 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 Fund 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 Fund 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

27 January, 2021