

# **REPORT OF THE AUDITOR-GENERAL ON SPORTS KENYA FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Sports Kenya set out on pages 20 to 42, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, 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, in my opinion 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 Sport 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) and comply with the Sports Act No.25 of 2013.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis of Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion 1. Accuracy and Completeness of the Financial Statements - Capital Work-in- Progress**

The statement of financial position as at 30 June 2017 reflect capital work in progress balance of Kshs.52,839,956 which differs with the balance reflected in the statement of changes in net assets of Kshs.1,037,087,249 resulting in unexplained difference of Kshs.984,247,293. No reconciliation has been provided for the differences.

As a result, the accuracy of the non-current assets balance of Kshs.205,467,547 and the financial statements as a whole as at 30 June 2017 could not be confirmed.

### **2.0 Property, Plant and Equipment**

The property, plant and equipment balance of Kshs.152,627,590.56 as at 30 June 2017 excludes the undetermined values of land on which the International Sports Centre Kasarani and Nyayo National Stadium are built as they do not have title deeds. As previously reported the property, plant and equipment balance also excludes grounded motor vehicles registration numbers GK. 710Q, GK. 703X and a tractor registration No. GK. O581 which have been lying in the yard without logbooks since 2002 when they were

taken over from the former parent ministry. Although management have indicated that they have written letters to the ministry requesting for official transfer of ownership to Sport Kenya, evidence of that communication is yet to be availed for audit verification.

Audit inspection of Kisumu stadium carried out in October 2016, which is located at the outskirts of the Kisumu town and measuring six (6) hectares, with an estimated value of Kshs.800,000,000 revealed that it had been grabbed by a religious organization (Redeemed Gospel Church) while an area along the perimeter fence next to Nakumatt mega plaza had been turned into a huge dumping site.

In view of the foregoing, the ownership, completeness, security and carrying values of the property, plant and equipment figure of Kshs.152,627,590 reflected in the statement of financial position as at 30 June 2017 cannot be confirmed.

### 3.0 Construction of Seven County Stadia

During the year under review, Sports Kenya awarded tenders for the construction of seven county stadia at a combined cost of Kshs.2,008,474,122 as follows:

Tender	Tender No.	Contractor	Amount Paid (Kshs.)	Contract Sum (Kshs.)
Kamariny Stadium – Iten Elgeyo Marakwet County	SK/RT/003/2016-2017	M/s Funan Construction Co. Ltd.	34,805,400	287,837,775
Ruringu Stadium- Nyeri County	SK/RT/008/2016-2017	M/s Funan Construction Co. Ltd	26,836,393	288,045,530
Kipchoge Keino – Eldoret Uasin Gishu County	SK/RT/004/2016-2017	M/s Weihai International Economic & Technology	36,278,397	304,204,413
Karatu Ndarugu-Gatundu Kiambu County	SK/RT/005/2016-2017	M/s Smith and Gold Productions Co. Ltd.	37,002,740	259,604,780
Wote Stadium- Wote Makweni County	SK/RT/006/2016-2017	M/s Taphes & Nitram Enterprise Ltd	49,131,006	299,309,554
Marsabit Stadium- Marsabit County	SK/RT/007/2016-2017	M/s Benisa Ltd	33,551,063	295,263,215
Chuka Stadium - Tharaka Nithi County	SK/RT/003/2016-2017	M/s Toddy Civil Engineering Co.Ltd	31,174,719	274,208,855
<b>Total</b>			<b>248,779,718</b>	<b>2,008,474,122</b>

However, tender documents relating to the procurement of contractors for the seven (7) County Stadia Projects which include original tender documents, tender opening minutes, evaluation committee reports and professional opinions were not provided for audit verification. The documents were stated to have been taken away by the Ethics and Anti-Corruption Commission (EACC) officers to assist them in their investigations of alleged irregularities in the award of the tenders.

In the circumstances, it has not been possible to confirm the efficiency, competition, fairness with which the contracts were entered into or whether value for money spent was obtained from the amount already paid totalling Kshs.248,779,717 as at 30 June 2017.

#### **4.0 Rio Olympic Games - Irregular Expenditure**

##### **4.1 Excess Vote-Rio Games Expenditure**

During the period under review, Sports Kenya made payments totalling Kshs.382,245,597 in form of allowances and other expenses for the Olympic Games held in Rio de Janeiro Brazil from 5 August 2016 to 21 August 2016 an item that was not reflected in Sports Kenya budget and therefore was an excess vote.

It was explained that the excess vote was as a result of Sports Kenya spending funds from their voted items with the understanding that the Ministry of Sports Culture and the Arts were to refund the amount spent. As at 30 June 2017 the Ministry had not refunded the amount despite several reminders.

##### **4.2 Un-Surrendered Rio-Olympic Imprests**

Imprests amounting to Kshs.73,523,070 were under unclear circumstances issued by Sports Kenya to the parent Ministry staff to facilitate Rio Olympics Games activities on the part of the Ministry of Sports, Culture and the The Arts. Out of the Kshs.73,523,070 issued to the Ministry staff, an amount Kshs.17,000,000 was issued to a procurement officer for the purpose of catering for the Rio Olympics expenses such as airport transfers, accommodation and refreshments. As at 30 June 2017, the imprests issued had not been surrendered. It was also noted that the imprests issued had no prior budget.

In the circumstance, it has not been possible to confirm the propriety of the expenditure of Kshs.455,768,667 incurred on Rio Olympics Games by Sports Kenya as at 30 June 2017.

#### **5.0 Lack of Substantive Director-General for Sports Kenya**

Sports Kenya has never had a substantive Director General since its inception and as stipulated in the Sports Act No.25 of 2013. All officers who have ever occupied the position, have been doing so in an acting capacity. Despite the efforts made by the Board in their Special Board meeting and final interview for the position of Director-General of Sports Kenya held on 19 July 2016 at Moi International Sports Centre VIP lounge main stadium under MIN.4/SB/19/7/2016, the Cabinet Secretary for Sports Culture and The Arts has so far not filled the vacancy. It is not clear and has not been explained what challenges the state department for Sports faces that hinders filling of the position of Director-General at Sports Kenya.

In the circumstances, implementation of policies, programs, performance targets and proper management of Sports Kenya funds cannot be assured.

#### **6.0 Going Concern/Sustainability of Services**

Examination of the financial statements of Sports Kenya disclosed that the current liabilities of Kshs.538,463,207 exceeded the current assets of Kshs.441,677,114 by Kshs.96,786,093. Hence, Sports Kenya was operating with a negative working capital and the financial statements have been prepared on the basis of continuous support from the Government and creditors.

Consequently, the continued service sustainability of Sports Kenya is threatened.

## **7. Consultancy Services for Construction of Three Stadiums**

### **7.1 Legal Consultancy for Public Private Partnership (PPP)**

Sports Kenya on 9 September 2015 entered into a contract with M/s S.S Malonza and Co. Advocates Ref: RFP/SK/001/20115-2016 under Request for Proposals for Public Private Partnership legal advisory services for construction of three (3) stadiums at a contract sum of Kshs.47 million to be undertaken on the basis of Public Private Partnership (PPP). According to the contract document, the consultant was to perform the services commencing on 9 September 2015 and through to 30 June 2015.

During the year under review, the consultant was paid Kshs.30,936,000 but it was noted that, no private partnership has so far been entered into and no stadium has been developed or initiated using Public Private Partnership.

In the circumstances, Sports Kenya and the Kenyan Public have so far not obtained value for money from the legal consultancy payments made so far totalling Kshs.30,936,000 as at 30 June 2017.

### **7.2. Consultancy Services for Feasibility Study and Development of Detailed Designs for Three (3) Stadia**

Sports Kenya on 8 January 2015 entered into a contract with a consortium of local and international firms to offer consultancy services for feasibility study and development of detailed designs for three (3) national/international stadiums in Nairobi, Mombasa and Eldoret Counties at a contract price of US\$1,071,105.43 or approximately Kshs.110,323,860. Further, the entire project including feasibility study was estimated at a cost of US\$320,000,000 which was used as a basis for payment to the other consultants in the consortium.

A review of the position in the year under review, indicates that the feasibility studies were completed in 2016 while the project was stated to be at the detailed design stage. As at 30 June 2016, the consortium had received payments totalling to Kshs.537,297,227. However, there was no evidence of the feasibility study and designs being put into use two and a half (2½) years later.

In addition, although the sites for the construction of three (3) stadiums had been identified in Nairobi, Mombasa and Eldoret Counties, according to the management, no formal agreements inform of Memorandum of Understanding (MoU) had been signed to initiate the process of acquiring the Land.

It is therefore not clear if and when the construction of the stadiums would be started and the feasibility study put into use.

In view of the foregoing, Sports Kenya and the Kenyan public have not received value for money from the Kshs.537,297,227 expenditure on feasibility study as at 30 June 2017.

## **8.0 Delayed Works**

### **8.1 Delayed Construction and Completion of a Hostel and Football/Rugby Pitches and Associated Civil Works**

The former Sports Stadium Management Board (now Sports Kenya) on 21 March 2013 entered into a contract with M/s Landmark Holdings Limited for the construction of a Hostel and Football/Rugby Pitches and Associated Civil Works at Kasarani Sports Complex at a contract sum of Kshs.859,859,770. The works were to commence on 21 March 2013 with the date of practical completion set at 22 March 2016 a period of 156 weeks.

Audit inspection of the project carried out in March 2018 revealed that the project was still incomplete three (3) years later and the contractor was still on site despite expiry of the contract period. As at the time of the audit, Sports Kenya had already handed over the project to the Kenya Academy of Sports (KAS) while the contractor had at the time of handover received payments totalling Kshs.875,759,846 or 102% of the total works which was over and above the contract sum by Kshs.15,945,076 and the project was still on-going.

Despite over payment of the full contract sum of Kshs.875,759,846 by Kshs.15,945,076, the project was still incomplete and the delayed completion of the project is likely to lead to extension of time and escalation of costs which should not remain a charge to public funds.

### **8.2. Delayed Construction Works for Indoor Sports Facility at Moi International Sports Centre- Kasarani**

Sports Kenya on 27 May 2016 entered into a contract (Tender No. SK/005/2015-2016) with M/s Nitram and Taphes Enterprises Ltd for the construction of an indoor sports facility at the Moi International Sports Centre, Kasarani at a contract sum of Kshs.31,020,776. The works were to commence on 27 May 2016 with a completion period of 32 weeks in which the construction company was expected to have executed the works and carried out remedies for any defects therein.

The indoor games facilities to be constructed included a Tennis and Badminton Court. A site inspection of the project carried out on 16 March 2018 revealed that although the contractor was still on site, the works had not been completed despite expiry of the contract period. As at 30 June 2017 the contractor had received payments totalling to Kshs.18,254,707 or 58.8% of the total contract sum.

The delayed completion of the project is likely to lead to extension of time and escalation of costs which should not remain a charge to public funds.

In view of the foregoing, value or money has not been obtained and the delays to project completion will lead to further unacceptable projects costs.

## **9.0 Unremitted Statutory Deductions**

The statement of financial position as at 30 June 2017 reflect current liabilities balance of Kshs.538,463,207 which includes unremitted PAYE of Kshs.16,940,606 for the year under review and a provision for assessed unpaid tax balance of Kshs.342,693,873. The provision of Kshs.342,693,873 was as a result of non-payment of tax in the previous years. However, documentary evidence of the tax assessment was not presented for audit review.

The failure to remit PAYE deductions on or before the 9<sup>th</sup> day of the month following pay roll month attracts penalties at the rate of 20% for late payment and interest at 2% per month. The management did not provide any reasons as to why they were not tax compliant and were therefore in breach of Part IV (1) of the Kenya Revenue Authority Act.

In consequence, the validity of the unpaid assessed tax of Kshs.342,693,873 by Kenya Revenue Authority and unremitted PAYE of Kshs.16,940,606 cannot be confirmed.

## **10.0 Accounts Receivables from Non-Exchange Transactions**

Included in the accounts receivables from non-transactions balance of Kshs.139,328,015 are balances of Kshs.107,390,842 due from the former Ministry of Youth Affairs and Kshs.10,000,000 due from Football Kenya Federation. As disclosed in Note 13 to the financial statements, the balances were indicated as loan advances made to the respective entities. However, no evidence has been presented to confirm that the stated amounts were paid and transferred to the accounts of the respective entities in order to qualify as a debt. Further, the terms and purpose for the loan advances have not been provided and no effort appears to have been made to pursue these debts.

In the circumstances, the propriety and validity of the two debts totaling Kshs.117,390,842 could not be ascertained.

## **11.0 Accounts Receivable from Exchange Transactions**

### **11.1 Trade Debtors**

The statement of financial position as at 30 June 2017 reflects an accounts receivable from exchange transactions balance of Kshs.239,275,924. Included in this balance was Kshs.130,546,860 in respect of trade debtors as disclosed under Note 14 to the financial statements. The trade debtors balance of Kshs.130,546,860 further included an amount of Kshs.76,325,666 relating to long outstanding balances in respect of the Kenya Football

Federation - Kshs. 42,338,852, Kenya Rugby Football - Kshs.12,637,616, National Olympic Committee - Kshs.5,136,700 and Kenya Volleyball Federation of Kshs.12,654,298.

Further, as reported in the previous years, the trade debtors balance of Kshs.130,546,680 also includes debts totaling Kshs.30,559,000 owed by two (2) media firms namely M/s Alliance Media - Kshs.11,850,000 and M/s Page signs and Graphics - Kshs.18,709,000 in respect of fees due from advertising contracts which have been outstanding since 2012. Although one of the advertising firm M/s Alliance Media has since taken the matter to court, the issue has not been resolved.

No provision for bad and doubtful debts has been made in the financial statements to guard against any loss that might be occasioned by non-recovery of the debts.

### **11.2 Outstanding Imprests**

The accounts receivables from exchange transaction balance of Kshs.239,275,924 reflected in the statement of financial position as at 30 June 2017 includes outstanding imprests totalling Kshs.7,403,352 which had not been surrendered by the due dates. No reasons have been given for the failure to recover the unsurrendered imprests in full from the respective officer's monthly salaries as required.

### **11.3 Rent Receivable**

The accounts receivables from exchange transactions balance of Kshs.239,275,924 also includes Kshs.100,977,713 in respect of rent receivables out of which Kshs.4,862,063 relates to rent deposits from tenants. However, the rent deposits could not be traced to relevant house numbers of the depositors. Despite mention in the previous years, management has not reconciled the rent deposits against payees of the respective houses.

In the circumstances, the accuracy and completeness of the accounts receivables from exchange transactions balance of Kshs.239,275,924 could not be confirmed as at 30 June 2017.

## **12.0 IAAF World U18 Champions Nairobi-Sports Kenya**

Between June 2016 and December 2017, the State Department of Sports Development granted Authority to Incur Expenditure (AIE) to Sports Kenya totaling Kshs.1,098,665,395 for the purpose of hosting the IAAF World U18 Championships in Nairobi.

### **12.1 AIE Disbursement to Sports Kenya**

A Local Organizing Committee (LOC) was formed and charged with the responsibility of coordinating and preparing for World Youth U18 Championships. Audit review of the expenditure incurred from the AIEs issued to Sports Kenya revealed the following irregularities:

### 12.1.1 Diversion of World Youth Championships Funds to Rio Games Fund then to Other Unrelated Actives

An amount of Kshs.201,817,637.26 budgeted for World Youth Championships, was diverted by Sports Kenya and utilized for non-related activities such as paying Sports Kenya salaries, allowances and tax obligations, Kenya Rugby Sevens allowances, Tong Modo Mombasa Open, FIM Motor Cross, Masai Mara Marathon and COTIF Women Tournament as follows:

Date	Payee	Details	Amount Kshs.
18.07.2016	MOSCA	Tong il Moo-do Mombasa Open	30,000,000
18.07.2016	MOSCA	Junior Golf Foundation	998,000
25.07.2016	MOSCA	Kenya Rugby Sevens Allowances	40,870,800
26.07.2016	MOSCA	Office Operations	11,086,942
02.08.2016	MOSCA	COTIF Women Tournament	1,435,100
11.08.2016	MOSCA	KECOSO	5,000,000
11.08.2016	MOSCA	Duncan Asumbwe	10,000,000
11.08.2016	MOSCA	FIM Motorcross of African Nations	5,000,000
15.08.2016	MOSCA	Masai Mara Marathon Ltd	3,000,000
23.11 to 28 12.2016	Sports Kenya	Kenya Revenue Authority	53,003,787
16.12.2016	Sports Kenya	Gross Salary for November & December 2016	28,923,009
-	Sports Kenya	Wote Stadium	12,500,000
<b>Total</b>			<b>201,817,638</b>

Further, the total expenditure of Kshs.201,817,637 was not supported by acknowledgement receipts/letters from the recipients. As a result of the diversion of funds meant for the IAAF World Youth U18 Championships, the Local Organizing Committee ended up with a pending bill of Kshs.195,104,232.08.

### 12.1.2 Pending Bills

The Utilization of the World Under 18 Championships funds for non-related activities resulted to pending bills totalling Kshs.195,104,232 owed to suppliers of goods and services. Further, the goals and objectives of the local organizing committee were not achieved as planned.



No plausible reason has been provided for diverting budgeted funds to other activities some of which had voted provisions.

Consequently, the pending bills balance of Kshs.195,104,232 is not a proper charge to public funds.

### **13.0 Supply and Installation of Three Running Tracks at Kasarani Stadium and Kenyatta University Sports Field**

The Local Organizing Committee for the IAAF World Under 18 Championships on 1 March 2017 entered into a contract with M/s Mondo Iberica S.A through direct procurement for the supply and installation of three running tracks at Kasarani Stadium and Kenyatta University Sports Field at a contract sum of Euros 3,018,739.89 (approximately Kshs.344,037,488.76). The works were to commence on 1 March 2017 with a completion period of 18 weeks. Further, examination of records availed for audit revealed:

- i) M/s Mondo Iberica SA was paid an advance payment of 50% of the contract sum which amounted to Euros 1,509,369.94 (Kshs.169,200,370). This payment was not secured with a bank guarantee and exceeded the 20% allowable limit contrary to Section 147(1) of the Public Procurement and Asset Disposal Act, 2015.
- ii) Available records indicate M/s Mondo Iberica S.A has so far been paid a total of Euros 3,117,344.13 (Kshs.355,275,143) which was Euros 98,604.24 (approximately Kshs.11,237,654.24) above of the contract sum. In addition, an audit inspection of the installation of the tartan track at Kenyatta University revealed that the works had not been completed by the 10<sup>th</sup> of July 2017 or by 54 weeks after signing of the contract.
- iii) M/s Mondo Iberica SA was also paid an additional Kshs.2,566,200 for sending additional technicians to assist in the installation of the tracks despite the fact that the works had already been covered in the initial contract.
- iv) Bills of Quantities and Completion Certificates were also not availed for audit verification to confirm that works were done to right standards and specifications. In addition, retention fee of 5% was not deducted from the contractor's payments in accordance with clause 26 of the contract to cover for the defect liability period.
- v) Clause 27.1 of the contract requires the contractor to pay the Local Organizing Committee liquidated damages of Euros 136 (approximately Kshs.15,499.50) per week for delays in completing of the works. No evidence has been produced to show that a claim has been lodged against the contractor.
- vi) In view of the foregoing, the regularity and propriety of Kshs.355,275,143 could not be ascertained. Further, no justification has been provided for the payment of Kshs.11,237,654.24 and Kshs.2,566,200 in excess of the contract sum.

## **14.0. Unsupported Expenditure**

- 14.1** Payment vouchers for expenditures totalling Kshs.6,666,941 made between May and July 2017 were not availed for audit. In the absence, of supporting documentations, the propriety of the expenditures incurred therein could not be vouched.
- 14.2** Payment vouchers for expenditures totalling Kshs.20,411,280 were not supported by relevant supporting documents such as requisitions, quotations, rooming list, attendance lists, travel clearance, tax compliance certificates, business registration certificates, contracts, fuel register, vehicle work tickets. In the absence of supporting documentations, the propriety of the expenditure could not be confirmed.
- 14.3** An amount of Kshs.48,068,500 was paid as allowances to staff, athletics officials and committee members. However, the payment vouchers were not supported with appointment letters, committee minutes and signed payments schedules. In the absence of adequate supporting documents, the propriety of the Kshs.48,068,500 payments could not be confirmed.
- 14.4** The Local Organizing Committee paid Kshs.20,790,000, to Athletics Management and Services, an associate of Dentsu Inc, as a license fee under the category release agreement signed between it and Dentsu Inc an IAAF Partner on the 13 December 2016. The payment of the fee was intended to grant the Local Organizing Committee the rights to solicit, procure and appoint as national sponsors, companies within the country that fall under the released product category. In return the Local Organizing Committee was entitled to retain all the moneys raised from such appointments. However, no acknowledgement receipts from the recipients was a produced for audit review.

Further, it has not been possible to determine if any value was derived from this expenditure since no receipts or bank statements were produced for audit review to show how much was generated from rights to solicit for sponsorships granted to the Local Organizing Committee. It has not been possible to ascertain whether value for money spent in these activities was obtained or confirm the propriety of the expenditure of Kshs.20,790,000.

In absence of the supporting documents, the propriety and validity of Kshs.267,682,774 expenditure on public funds could not be confirmed.

## **15.0 Irregular Direct procurements**

Sports Kenya incurred Kshs.49,706,824 through direct procurement contrary to the provision of Section103 (1) of the Public Procurement and Asset Disposal Act, 2015 as follows:

### **15.1 Dry Cleaning Services**

M/s Pewin Dry Cleaners and Launderers Limited were directly procured by the Local Organizing Committee and paid a down payment of Kshs.10,000,000 leaving a pending balance of Kshs.20,820,762 for provision of laundry services to athletes participating in the IAAF Under18 World Youth Championships 2017 held in Nairobi. However, no contract was produced for audit review and as a result, it has not been possible to confirm whether the rates charged were competitive or whether value for money was obtained from the expenditure of Kshs.10,000,000.

The same firm was also given another contract by the Local Organizing Committee under M/s Pewin Cabs Ltd to provide transport services at a cost of Kshs.66 million by the State Department of Sports Development.

## **15.2 Procurement of Furniture and Other Equipment**

The Local Organizing Committee incurred expenditures totaling to Kshs.40,358,607 relating to the procurement of furniture and equipment under the World Youth Championship. The payments were made to various firms which supplied items such as laptops, UPS, workstations, desktop computers, timing equipment and printers. However, there was no evidence to show that the items were delivered, received and taken on charge. In the circumstances, the propriety of the Kshs.40,358,607 expenditure could not be confirmed.

## **15.3 Procurement of Sports Equipment**

Nairobi Sports House was directly by the Local Organizing Committee procured and paid Kshs.5,224,300 for the supply of uniforms and sports equipment without developing specific requirements. However, there was no evidence of how the items were delivered, received and taken on charge. In the circumstances, the propriety of the Kshs.5,224,300 expenditure could not be confirmed.

## **15.4 Procurement of Equipment and Stationery**

M/s Dahel Business Solution was directly procured by the Local Organizing Committee and paid a total of Kshs.1,893,920 for the Supply of equipment and stationery. However, there was no evidence to show that these items were delivered, received and taken on charge. In the circumstances, the propriety of the Kshs.1,893,920 expenditure could not be confirmed.

## **15.5 Purchase of Mobile Phones**

An amount of Kshs.4,646,963 was paid to Safaricom Limited for the supply of mobile phones. However, the expenditure was not supported with a list of the officials supplied with the phones and the phones were not availed for audit verification.

In view of the foregoing, it has not been possible to confirm receipt and distribution of the mobile phones worth Kshs.4,646,963.

## **15.6 Foreign Travel**

An amount of Kshs.5,902,687 was spent on foreign travel to Uganda and Poland to observe the organization of IAAF events. However, the expenditure was not supported with a list of the officials, reports on lessons learnt, action points and travel clearance letters.

### **15.7 Procurement of Motor Vehicles**

Sport Kenya purchased two Mitsubshi motor vehicles worth Kshs.10,912,000 from

Simba Motors Corporation through the adoption of the supply contracts between the Corporation and Government Supplies Branch. However, a scrutiny of contract supporting the payment voucher revealed that the vehicles purchased were not included in the supply contract signed between the Supplies Branch and Simba Motors Corporation. In addition, the respective logbooks and inspection certificates from the Chief mechanical and transport engineer were not produced for audit review. The vehicles were also not made available for physical verification.

In view of the foregoing, it has not been possible to confirm the propriety and value for money for the total expenditure of Kshs.78,938,477 as at 30 June 2017.

### **Unresolved Prior Year's Matters**

#### **16.0 Supply, Delivery and Installation of Synthetic Track Surface Mombasa County Stadium**

As previously reported, Sports Kenya entered into a contract on 9 April 2015 with a local construction company for the supply, delivery and installation of a synthetic track surface at the Mombasa County Stadium at a contract price of Kshs.48,852,056. However, the specific duration of the contract was not given. During the financial year 2015/2016, Kshs.69,752,994 was paid to the contractor while Kshs.10,666,934 was paid during the year under review leading to a total amount paid to Kshs.80,419,928 resulting in an excess payment of Kshs.31,567,872.

No justification has been made for the excess payment which is beyond the threshold of contract value variation of 25% allowed by Section 139 (4) (c) of the Public Procurement and Asset Disposal Regulations, 2015. During the audit of the financial statements for 2016/2017 it was noted that, almost three (3) years after signing the contract, the tartan track has not been installed and was said to be in containers placed outside the stadium. Only partial work has been done on the sub-base despite the overpayment of the contract sum.

Although the management of Sports Kenya has continued to state that part of the works remaining was to be undertaken by the County Government of Mombasa, no status report on the progress made was availed for audit review. In addition, no Memorandum of understanding (MoU) between the County Government of Mombasa and the Sports Kenya detailing responsibilities and ownership of the project was presented for audit verification.

In the circumstances, the propriety and value for money for the expenditure of Kshs.80,419,928 cannot be ascertained.

## 17.0 Supply, Delivery and Installation of Synthetic Track Surface - Nyayo National Stadium

As previously reported, Sport Kenya paid a total of Kshs.111,596,640 for the Supply, delivery and installation of synthetic track surface at Nyayo National Stadium which was Kshs.21,745,360 or 24% over and above the contract sum of Kshs.89,851,280.

A review of the matter in 2017, indicated that only Kshs.75,721,041 was reflected in the financial statements of Sport Kenya as opposed to Kshs.111,596,640 confirmed as paid in audit report for 2015/2016 resulting in unexplained difference of Kshs.35,875,559.

In view of the foregoing, financial statement balance of Kshs.75,721,041 as reflected in Note 9.0 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Sports Kenya 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 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 have determined that there are no Key Audit Matters to communicate in my report.

### Other Matter

#### 1. Budget and Budgetary Performance

##### 1.1 Receipts

Analysis of actual receipts against budgeted amounts revealed the following variances:

Revenue head	Budget Kshs.	Actual Kshs.	Excess (+) Shortfall (-) Kshs.	Variance %
Government grants	4,231,919,961	1,778,677,483	-2,453,242,478	58
Other sources	727,583,120	243,781,272	-483,801,848	66
<b>Total</b>	<b>4,969,503,081</b>	<b>2,022,458,755</b>	<b>-2,947,044,326</b>	<b>59</b>

Actual receipts amounted to Kshs.2,022,458,755 against the budgeted receipts of Kshs.4,969,503,081 resulting in a shortfall of Kshs.2,947,044,326 or 59%. The shortfall was mainly attributed to austerity measures taken by the government resulting in reduction in Grants. Revenue from other sources also realized a shortfall of Kshs.483,801,848 from the budgeted Kshs.727,583,120 to Kshs.243,781,272 or 66%

which was mainly attributed to closure of revenue generating facilities for renovations during the year under review.

## 1.2 Expenditure

Sports Kenya had budgeted to spend Kshs.4,959,503,081 in 2016/2017 but the actual expenditure amounted to Kshs.2,016,210,445 resulting in under expenditure of Kshs.2,943,292,636 or 59% as highlighted below:

Expenditure	Budget Kshs.	Actual Kshs.	Over (+) Under (-) Kshs.	Over/(under) %
Employee Costs	346,097,081	190,586,451	-155,510,630	(45)
Board Remuneration	15,000,000	15,485,012	485,012	3.2
General Expenses	236,760,000	137,482,940	-99,277,260	(42)
Contracted and Professional Services	65,566,000	77,718,472	12,152,472	19
Rehabilitation Works	3,182,700,000	335,167,692	-2,847,532,308	(89)
Rio Expenses	0	382,245,597	382,245,597	100
WYC 2017 Expenses	936,000,000	788,849,678	147,150,322	(16)
Bulk Purchase of Water & Electricity	99,600,000	55,543,375	-44,056,625	(44)
Repairs & Maintenance	49,300,000	11,953,748	-37,346,252	(76)
Finance Cost	0	410,540	410,540	100
<b>Total</b>	<b>4,959,503,081</b>	<b>2,016,210,445</b>	<b>-2,943,292,636</b>	<b>(59)</b>

### Under-expenditure

1. Overall, due to the large budget deficit the Sports Kenya underspent by Kshs.2,943,292,636 or 59%.
2. Sports Kenya had budgeted to spend Kshs.3,182,000,000 on rehabilitation works but only Kshs.335,167,692 was spent resulting to an under-expenditure of Kshs.2,847,532,308 or 89%. The under expenditure was attributed to non-receipt of Government Grants.
3. An amount of Kshs.49,300,000 was budgeted for repairs and maintenance but only Kshs.11,953,748 was spent resulting in an under-expenditure of Kshs.37,346,252 or 76%. No notes were provided for the under-expenditure.

### Over-Expenditure

1. The Board did not budget any amount under Rio Expenses but the management spent Kshs.382,245,597 or 100%. This was attributed to expenses paid by Sports Kenya from its funds on behalf of the State Department of Sports Development. The management had not received refund of the amount spent as at the time of audit.
2. An amount of Kshs.65,566,000 was budgeted in respect on contracted and Professional Services but Kshs 77,718,472 was spent resulting to an over expenditure of Kshs.12,152,472 or 19%. No notes were provided for the over expenditure on this item.

The failure to receive and spend Kshs.2,943,292,636 or 59% of the budgeted expenditure implies that the planned goals and objectives were not achieved.

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

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 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.

In preparing the financial statements, management is responsible for assessing the Sports Kenya 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 Sports Kenya 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.

Those charged with governance are responsible for overseeing the Sports Kenya 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. 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.

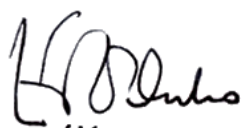
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Sport Kenya 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 Sports Kenya'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 Sports Kenya 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 Sports Kenya 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**

**10 July 2018**