

REPORT OF THE AUDITOR-GENERAL ON STREET FAMILIES REHABILITATION TRUST FUND FOR YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of the Street Families Rehabilitation Trust Fund set out on pages 2 to 13, which comprise the statement of financial assets and liabilities as at 30 June 2018, statement of receipts and payments, statement of cash flows, statement of comparison of the budget and the 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Failure to Prepare Financial Statements for the Previous Years

The Trust Fund was established on 11 March 2003 and Section 12(2) of the Trust Deed requires the Fund to be audited in line with the Public Audit Act. The Fund has, however, prepared its first financial statements ever for the year 2016/2017 only. Although it is evident that there were activities such as Board meetings held on April 2016 and cash transfer amounting to Kshs.230,000,000 to the Fund's bank account in the 2015/2016 financial year, no satisfactory explanation has been given for failure to prepare the financial statements for that year.

Consequently, the closing balances for the year 2016/2017 could not be confirmed in the absence of previous years' financial statements.

2. Inaccuracies of Accounting Records

The operating expenses of Kshs.14,933,782 as reflected on note 4 to the financial statements could not be verified as accurate as the amounts posted in the general ledger which has been used in the preparation of the financial statements differed with the supporting documents made available for audit examination as shown in the sample ledger posting below;

| Payment Voucher Number | Amount on General Ledger Kshs | Amount Paid on Payment Vouchers Kshs | Difference Kshs |
|------------------------|-------------------------------|--------------------------------------|-----------------|
| 256 | 230,000 | 210,000 | 20,000 |
| 297 | 189,800 | 44,800 | 145,000 |
| 78 | 199,689 | 187,800 | 11,889 |
| 461 | 174,200 | 74,200 | 100,000 |

| | | | |
|-----|---------|--------|---------|
| 215 | 295,126 | 60,500 | 234,626 |
| 413 | 53,700 | 23,700 | 30,000 |

Under the circumstances, the accuracy and completeness of the financial statements as at 30 June 2018 could not be confirmed.

3. Initial Capital Fund

The Trust Deed indicates that the fund was to have an initial capital fund of Kshs.5.05 million. This amount is not reflected in the financial statements for 2016/2017 and neither has any details been provided on whether the monies were paid to the Fund at the point of formation as expected and how it was accounted for.

In consequence, the capital fund of the Trust Fund could not be confirmed as at 30 June 2018.

4. Unvalued and unsupported Land

4.1 Lack of Ownership Documents for Land

Records maintained by the Street Families Rehabilitation Trust Fund (SFRTF) indicates that the Fund owns various pieces of land all of which had no ownership documents as of 30 June, 2018 as detailed below:

4.1.1 LR No. 209/11325

The land was donated and surrendered to the Fund by the Kenya Pipeline Company Limited (KPC) on 23 August 2007 vide a letter Ref. No. LE/LA/25/4 addressed to the Commissioner of Lands by the Managing Director of the Company. The title was surrendered to the Commissioner of Lands on 6 August 2007 for purposes of transferring and registering the property in the name of the Fund. However, ten years down the line, the transfer has never been effected.

4.1.2 LR No. Mavoko Town Block 3/2545

The Fund purchased the land measuring 8.090 hectares at a cost of Kshs.38 million on 6 December 2013. The original title was surrendered to the Ministry of Lands for subsequent transfer in the same month. However, up to date the said property has not been transferred to the Fund.

4.1.3 Unidentified Land in Counties

The Board of Trustees in the minutes dated 19 September 2016 indicated that the Fund had been allocated land in various counties by the defunct Local Authorities. The Fund is yet to identify where the pieces of land are located and obtain either the title deeds or any legal documents of allocation. There is real threat of loss of these properties if the Fund does not expedite the process of obtaining ownership documents.

In view of the foregoing, the ownership, valuation and safety of the Trust Fund's parcels of land could not be ascertained as at 30 June 2018.

5. Transfers to Other Partner Institutions

The transfers to other partner institutions balance of Kshs.273,709,276 as per the statement of receipts and payments for the year 2017/2018 had the following issues noted:

- i. The Board of Trustees approved an amount of Kshs.270,550,089 to be disbursed to partner institutions but amount disbursed as per the documentation provided for audit verifications totaled to Kshs.274,053,089 resulting in an excess payment of Kshs.3,503,000.
- ii. The reported amount of Kshs.273,709,276 has an unexplained variance of Kshs.343,813 with the supported disbursements of Kshs.274,053,089.
- iii. There was a double payment to one of the partner institutions amounting to Kshs.1,641,500. Even though the management indicated the amount to have been subsequently refunded, the refund could not be supported by corresponding entry in the bank statement.

Under the circumstances, the accuracy and completeness of the transfers to other partner institutions balance of Kshs.273,707,276 as at 30 June 2018 could not be confirmed.

6. Chairman's Honoraria

The statement of receipts and payment for the year ended 30 June 2018 reflects Kshs.116,695,980 in respect of other grants transfers and payment which includes Kshs.540,000 in respect of payments for Chairman's honoraria. However, the amount excludes Kshs.180,000 relating to the period from April, 2018 to June, 2018 that was not included in the pending bills even though it was due and payable in the year under review.

Consequently, the amount of the Chairman's Honoraria of Kshs.540,000 for the year under review as reported on note 4 of the financial statements is not fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Disclaimer of Opinion] section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for [Conclusion of Internal Controls, Risk Management and Governance /Disclaimer of Opinion] section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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 (Cash 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 to sustain services, disclosing, as applicable, matters related to

sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Council 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 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 Street Families Rehabilitation Trust 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 Street Families Rehabilitation Trust 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.



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

Nairobi

12 July 2019