

REPORT OF THE AUDITOR-GENERAL ON KENYA ACADEMY OF SPORTS FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such Clubs are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Academy of Sports set out on pages 1 to 32, which comprise of the statement of financial position as at 30 June, 2021 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 the Kenya Academy of Sports as at 30 June, 2021, 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 Sports Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Stale Cheques in Bank Reconciliation Statements

The statement of financial position reflects a balance of Kshs.154,865,033 in respect of cash and cash equivalents which includes an amount of Kshs.154,850,089 held in a local bank account. The bank reconciliation statements in support of the balance includes bounced cheques totalling to Kshs.3,924,678 issued on diverse dates between 2017 and 2020 and are stale and have not been reversed in the cash book.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.154,865,033 as at 30 June, 2021 could not be confirmed.

2. Anomalies in Work-In-Progress Expenditure

The statement of financial position reflects non-current assets balance of Kshs.1,193,095,157 which includes an amount of Kshs.61,503,085 paid during the year under review for work in progress in respect of the International Sports Academy bringing the total amount paid to Kshs.1,193,095,157 as at 30 June 2021. In 2008/2009, the Sports Department, under the Ministry of Sports and Youth Affairs conceived the idea to establish a specialized Centre for Sports talent development and research in sports. Sports Kenya, then Sports Stadia Management Board was charged with overseeing the implementation of the project. The entire master plan of the project estimated at Kshs.4,900,000,000, envisages the construction of state-of-the-art multi-sport facilities.

The project was to be implemented in phases starting with Phase 1, that involved hostel building with internal finishes of basement, ground and first floors, 5 playgrounds (one rugby pitch, 2 football pitches and 2 basketball courts); access road and parking; and partial landscaping around the hostel building. The contract for the construction of Phase 1 was signed on 28 July, 2018 between Sports Kenya and the contractor at a contract sum of Kshs.859,814,770. The lead consultant (architects) cumulatively has been paid Kshs.195,627,118.

A review of the project records revealed the following anomalies:

- i. Total architectural fee of Kshs.195,627,118 was calculated based on the total estimated cost of Kshs.4,900,000,000 instead of Kshs.859,814,770 the contract sum for Phase 1. Further, the services of a consultant were outsourced instead of technical officers from the State Department for Public Works. Had the Board engaged officers from Public Works, Kshs.195,627,118 paid to the consultants would have been saved on the cost of the project.
- ii. Drawings (architectural and structural); tender documents or Bills of Quantities (building works and sub-contracts) and the original signed contracts were not provided for audit review.

- iii. No evidence was provided to confirm the recovery of retention monies, withholding tax vat (2%), and withholding tax consultancy (5%). Further, no retention register and KRA payments for the same were provided for audit. Phase 1 of the project had a revised completion date of 30 March, 2020 although the project is yet to be completed and the contractor was not on site at the time of inspection on 15 February, 2022. In addition, no extension of the contract period was provided for audit.
- iv. Poor workmanship was also observed during the site inspection in February, 2022, with gabions done but not fully completed and others falling out; the common washers (dhobi) in the basement had cracks which would have to be redone, for the ground and first floor; painting on walls were peeling off; and some toilets were broken and not functioning.
- v. As at a 30 June, 2021, payments totalling to Kshs.1,193,095,157 had been made towards the project exceeding the contract sum of Kshs.859,814,770 by Kshs.333,280,387 or 39% of the contract price.

Consequently, the validity and accuracy of work-in-progress balance of Kshs.61,503,085 incurred on the project during the year under review could not be confirmed.

3. Unapproved Expenditure

The statement of financial performance and as disclosed in Note 5 under use of goods and services reflects an amount of Kshs.62,522,675. Included in the amount is Kshs.898,200 incurred in linkages and partnerships, establishment of satellite academies amount of Kshs.2,086,400 and consultancy services of Kshs.3,030,000 all totalling to Kshs.6,014,600. However, the Academy did not have an approved budget allocation for these expenditures.

In the circumstances, the validity and accuracy of the expenditure of Kshs.6,014,600 could not be confirmed for the year ended 30 June, 2021.

4. Property, Plant and Equipment

The statement of financial position and as disclosed in Note 8 to the financial statements reflects building work-in-progress balance of Kshs.1,193,095,157 as at 30 June, 2021. However, Note 11 on property plant and equipment movement schedule is not disclosed in the statement of financial position. Further Note 11 does not disclose the value of land, motor vehicles, plant and machinery, office equipment and furniture. In addition, Management did not provide for audit, ownership documents such as title deeds, motor vehicles log books and an assets register.

In the circumstances, the accuracy, ownership, completeness and validity of the property, plant and equipment balance of Kshs.1,193,095,157 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Academy of Sports 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. There are no key audit matters to report in the year under review.

Other Matter

Prior Year Audit Matters

In the audit report of the previous year, a number of issues were raised under the report on financial statements. However, Management has not resolved the issues or disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board template.

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, I confirm that, nothing 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

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for the Conclusion

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 overall 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 the Board of Directors

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Academy'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 Academy 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.

The Board of Directors is responsible for overseeing the Academy's reporting process, reviewing the effectiveness of how Management 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 overall 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 Academy'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 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 Academy'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 Academy to cease to continue 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 Academy 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

29 July, 2022