

REPORT OF THE AUDITOR-GENERAL ON SPORTS KENYA 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 funds 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 Sports Kenya set out on pages 1 to 80, 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 Sports Kenya 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 the Sports Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Variances between Financial Statements and Supporting Schedules

The financial statements reflects balances that were at variance with the supporting schedules as detailed below:

Particulars	Financial Statement Balance (Kshs.)	Supporting Schedule Balance (Kshs.)	Variance (Kshs.)
Bulk Purchases of Water and Electricity	50,918,392	-	50,918,392
Inventories	3,028,509	-	3,028,509
Trade and other Payables from Exchange Transactions	128,117,027	138,950,456	(10,833,429)
Project 10% Retention Fee	97,136,509	92,890,683	4,245,826

The variances were not explained.

In the circumstances, the accuracy of the balances reflected in the financial statements could not be confirmed.

2.0 Inaccuracies in the Financial Statements

The statement of financial performance reflects total expenses amount of Kshs.486,771,981, whereas the statement of budget and actual amounts reflects total recurrent expenditure balance of Kshs.455,645,777 resulting to an unexplained variance of Kshs.31,126,204. Further, the statement of changes in net assets reflects an increase in the capital funds balance of Kshs.1,081,409,309 during the year under review that differs with development grants in Appendix III balance of Kshs.1,111,350,793 resulting to unreconciled variance of Kshs.29,941,484.

In addition, the statement of changes in net assets reflects capital reserve additions for the year of Kshs.1,081,409,309 whereas the statement of budget and actual amounts reflects total capital expenditure balance of Kshs.1,008,084,863 resulting to an unexplained variance of Kshs.73,324,446.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2021 could not be confirmed.

3.0 Inaccurate Bank Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.316,791,807 and as disclosed in Note 16 to the financial statements. Included in the balance is Co-operative project account balance of Kshs.297,555,489 that differed with its cash book balance of Kshs.290,804,859 resulting to an unreconciled variance of Kshs.6,750,630.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.316,791,807 could not be confirmed.

4.0 Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.222,248,314. However, the debtors movement schedule showing the opening balance, additions for the year and payments to arrive at the closing balance was not provided. Further, the balance includes rent receivable balance of Kshs.42,136,563 out of which an amount of Kshs.20,544,506 was in respect of rent arrears dating as far back as 2006/2007 and for tenants who had vacated the premises.

In the circumstances, the accuracy, completeness and recoverability of receivables from exchange transactions balance of Kshs.222,248,314 could not be confirmed.

5.0 Receivables from Non - Exchange Transactions

The statement of financial position reflects accounts receivables from non-exchange transactions balance of Kshs.172,547,013. However, the balance includes an amount of Kshs.154,569,538 in respect to undisbursed government grants, out of which an amount of Kshs.117,890,843 has been outstanding for over two years. This is contrary to Section 45 of the Public Finance Management Act, 2012 which states that, an appropriation that has not been spent at the end of the financial year for which it was appropriated shall lapse immediately at the end of that financial year. Further, its classification does not comply with Section 76 of IPSAS 1, which requires an asset to be classified as a current asset, if it is to be realized in a period not exceeding twelve months after reporting the date.

In the circumstances, the accuracy, completeness and recoverability of receivables from non - exchange transactions balance of Kshs.154,569,538 could not be confirmed.

6.0 Non-Recovery of Advance Mobilization Monies

The statement of financial position reflects advanced mobilization monies balance of Kshs.105,017,573 in respect of advance payments made to contractors for construction of stadiums across the country as detailed below:

Project Details	Total Project Cost (Kshs.)	Mobilization Given (Kshs.)	Amount Recovered (Kshs.)	Outstanding Mobilization (Kshs.)
Chuka Stadium	274,208,855	24,678,796	24,678,796	-
Kamariny Stadium	287,837,775	25,905,399	-	25,905,399
Karatu Ndaragu Stadium	259,604,780	38,364,430	7,672,000	30,692,430
Marsabit Stadium	372,236,215	26,573,689	26,573,689	-
Ruringu Stadium	288,045,530	20,000,000	7,000,000	13,000,000
Wote Stadium	299,309,554	45,936,538	10,516,794	35,419,744
Total	2,455,125,031	282,772,831	177,755,257	105,017,573

However, expenditure returns, certificate of works certified and project implementation status reports in support of the advance payments of Kshs.105,017,573 were not provided for audit. Further, the construction of the Kamariny Stadium has stalled and the bank guarantee for its advance of Kshs.25,905,399 has not been recovered.

In the circumstances, the accuracy, completeness, recoverability and classification of advanced mobilization monies balance of Kshs.105,017,573 could not be confirmed.

7.0 Work-In-Progress

The statement of financial position reflects work-in-progress (W.I.P) balance of Kshs.2,895,373,824 and as disclosed in Note 22 to the financial statements. However, the detailed movement schedule showing the opening W.I.P balance, works certified and payments made during the year under review to arrive at the closing balance were not provided.

In addition, the balance includes payments of Kshs.34,585,249 in respect of International Sports Academy (ISA) which falls outside the mandate of Sports Kenya.

In the circumstances, the accuracy and completeness of work in progress balance of Kshs.2,895,373,824 could not be confirmed.

8.0 Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.128,117,027 out of which Kshs.93,118,076 was in respect of creditors that have been outstanding for over two years. This is contrary to Section 80 of IPSAS 1, that requires a liability to be classified as current when it is due to be settled within twelve months after the reporting date.

In the circumstances, the accuracy, completeness and classification of trade and other payables balance of Kshs.128,117,027 could not be confirmed.

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

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a total income budget of Kshs.2,921,169,000 against actual receipts of Kshs.1,542,283,925 resulting to a revenue shortfall of Kshs.1,378,885,075 or 47% of the budget. The statement also reflects total expenditure budget of Kshs.2,921,169,000 against actual expenditure of Kshs.1,463,740,640 resulting to under-expenditure of Kshs.1,457,428,360 or 50 % of the budget.

The revenue shortfall and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues. This is

contrary to the requirements of the Public Sector Accounting Standards Board reporting guidelines.

In the circumstances, Management has not compiled with the reporting 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, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in 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. Non-Recovery of Excess Contract Payments

Note 22.4 to the financial statements reflects feasibility works balance of Kshs.507,617,038 in respect of provision of consultancy services for feasibility study and development of detailed designs for three stadiums at a contract sum of USD 1,071,105 (Kshs.117,821,597). However, as previously reported, the balance includes over-payments of Kshs.389,795,441 for a contract that has not been fully executed.

In the circumstances, Management was in breach of the law.

2. Non-Extension of Contracts

The statement of financial position reflects work-in-progress balance of Kshs.2,895,373,824 out which, works valued at Kshs.458,989,383 were in respect of lapsed contracts as detailed below:

Particulars	Contract Sum Kshs.	Payments Kshs.	Completion Date
Marsabit Stadium	295,263,215	168,851,178	31-12-2021
Karatu Stadium	259,604,780	135,740,373	31-12-2020
Wote Stadium	299,305,555	154,397,832	31-12-2021
Total	854,173,550	458,989,383	

Although, the contracts completion dates in respect of the works had lapsed, Management had not renewed them.

In the circumstances, Management was in breach of the law.

3.0 Non-Compliance with the Reporting Template

The annual report and financial statement as presented for audit had the following anomalies:

- (i) The financial statement pages vii and viii do not indicate the date of birth in respect of two Directors.

- (ii) The Chairman's statement on page xii is not signed and dated.
- (iii) The statement of Directors' responsibilities on page xxiv does not indicate the financial statement approval date and is not signed by the Board chairman.

Consequently, the financial statements as prepared and presented are not in the format prescribed by the Public Sector Accounting Standards Board.

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 matter described in the basis for conclusion on effectiveness of internal controls, risk management and overall 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 governance were not effective.

Basis for Conclusion

Lack of Board Approval for Tariff Guide

The statement of financial performance reflects revenue from exchange transactions amount of Kshs.63,649,081 in respect of hire of facilities. Records provided for audit indicate that, the Management established a pricing and reservation policy in 2019 that guides and harmonizes charges and fees for the Corporation's products and services. However, there is no evidence that a market survey was conducted and that the pricing policy guidelines have been approved by the Board.

In the circumstances, the enforceability of the tariff guide could not be confirmed in the absence of relevant Board approvals.

The audit was conducted in accordance with ISSAI's 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 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 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 controls 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.

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

The Board of Directors is responsible for overseeing the Corporation's financial 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.

Because of its inherent limitations, internal controls 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 corporation'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 Corporation's ability 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 Corporation to cease 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 Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicated 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

27 July, 2022