REPORT OF THE AUDITOR-GENERAL ON CHILD WELFARE SOCIETY OF KENYA FOR THE YEAR ENDED 30 JUNE, 2023

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 Child Welfare Society of Kenya set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2023, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 Child Welfare Society of Kenya as at 30 June, 2023,

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 Public Finance Management Act, 2012 and the Child Welfare Society Order, 2014.

Basis for Qualified Opinion

1. Lack of Ownership Documents

The statement of financial position, and as disclosed in Note 14 to the financial statements reflects property, plant and equipment balance of Kshs.2,985,443,589. Included, in the balance is an amount of Kshs.1,151,313,276 for land. However, eighteen (18) parcels of land spread across the country did not have complete ownership documents while some had none at all. Although the Society provided some documents indicating progress in acquiring the ownership, the process had not been completed by the time of audit in January, 2024. Further, some parcels of land had ongoing court cases regarding ownership.

In the circumstance, the accuracy, ownership and completeness for property, plant and equipment of Kshs.2,985,443,589 could not be confirmed.

2. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalent balance of Kshs.635,250,211 as disclosed in Note 18 to the financial statements. However, eighteen (18) bank accounts with Kshs.1,130,382 balance remained inactive throughout the year, though Management has written to the bank to activate four (4) out of the eighteen accounts. Response from the bank on their status at April, 2024 was not provided for audit review. In addition, no explanation was provided for failure to close the remaining fourteen (14) of them.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.635,250,211 could not be confirmed.

3. Long Outstanding Receivables

The statement of financial position, and as disclosed in Note 17 to the financial statements reflects receivables balance of Kshs.6,971,908 as at 30 June, 2023, which has been outstanding for a long time. However, Management has not indicated the effort being made to recover the long outstanding receivables.

In the circumstances, the accuracy and recoverability of the receivables balance of Kshs.6,971,908 could not be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final expenditure budget and actual on a comparable basis of Kshs.1,223,836,000 and Kshs.1,091,620,232 respectively resulting in under-expenditure of Kshs.132,215,768 or 11% of the budget.

The under-expenditure may have affected the implementation of the strategic objective of provision of the legal and institutional framework for the care, control protection and adoption of children.

My opinion is not modified in respect of this matter.

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

Unresolved Prior Year Matters

As disclosed under the progress on follow-up on the auditor's recommendations section of the financial statements, various prior year audit issues remained unresolved as at 30 June, 2023. Management had not provided reasons for the delay in resolving the prior year's audit issues as required by the Public Sector Accounting Standards Board template and The National Treasury's circular Ref. AG.3/88 Vol. VII (28) of 09 May, 2023.

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. Incomplete Building Works

The statement of financial position reflects property, plant and equipment balance of Kshs.2,985,443,589 as disclosed in Note 14 to the financial statements. The balance includes construction work in progress amount of Kshs.1,547,253,917 out of which Kshs.1,427,720,834 was in respect to construction of buildings in six sites of Isiolo, Nanyuki, Murang'a, Bungoma, Joska and Mama Ngina. As previously reported, the contracts for these projects were awarded at contract sums totalling Kshs.3,951,587,738 and were expected to be completed in 2018. However, a physical verification in February, 2024 revealed that they were still incomplete despite Kshs.1,427,720,834 having been paid as at 30 June, 2023. Management has not indicated when these projects were likely to be completed for use by the children as intended.

In the circumstances, the delay may result in escalated costs for completion and value for money may not be obtained.

2. Non-Compliance with One-Third of Basic Salary Rule

Review of the payroll of the Society revealed that during the year under review, twenty-two (22) employees received a net salary of less than one-third (1/3) of their basic salaries contrary to Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which provides that public officers shall not over commit their salaries beyond two thirds (2/3) of basic salary. Management did not provide satisfactory explanations for the failure to comply with the policy.

In the circumstances, Management was in breach of the human resource policies and procedure manual.

3. Overdrawn Bank Accounts

The statement of financial position reflects cash and cash equivalents balance of Kshs.635,250,211 as disclosed in Note 18 to the financial statements. The balance includes Kshs.633,538,266 in respect of the current account balance, out of which, Kshs.176,420 relates to two (2) overdrawn bank accounts. This was contrary to Regulation 82(7) of the Public Finance Management (National Government) Regulations, 2015 which provides that no official government bank account shall be overdrawn, nor shall any advance or loan be obtained from a bank account for official purposes beyond the limit, authorized by The National Treasury in line with Section 28(4) of the Act.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Lack of an Audit Committee and Weak internal Audit Unit

As reported in the previous year, the Society did not have an Audit Committee contrary to Section 73 (5) of the Public Finance Management Act, 2012 which states that every

national government entity shall establish an internal auditing committee whose composition and functions are to be prescribed by the regulations. Further, the Internal Audit did not have an approved internal audit charter and an approved audit plan. This was contrary to Section 73(1) and (2) of the Public Finance Management Act, 2012 which requires every National Government entity to establish means for conducting internal audit reviews in accordance with the guidelines issued by the Accounting Standards Board and regulations that prescribe requirements for conducting internal audits.

In the circumstances, the effectiveness of risk management measures and governance of the Society could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and 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 Trustees

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 Society'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 Society 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 Trustees is responsible for overseeing the Society'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.

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 controls 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 controls 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 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 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 Management.

- Conclude on the appropriateness of 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 Society'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 Society 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 Society to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

13 May, 2024