

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – GALOLE CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Galole Constituency set out on pages 6 to 24, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Galole Constituency 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 (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

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

Basis for Qualified Opinion

Bank Balances

The statement of financial assets reflects a bank balance of Kshs.2,072,105. However, bank reconciliation statement presented for audit review reflected unrepresented cheques amounting to Kshs.2,487,836.00, out of which cheques totalling Kshs.755,233.95 were stale and not reversed in cash book. Further, the reconciliations reflected receipts in bank statement not recorded in cashbook of Kshs.92,704.85 that had no support schedule. Further, bank charges of Kshs.139,404.29 some dating as far back as the year 2009 were included in the bank

reconciliation statement instead of being expensed and therefore omitted in these financial statements.

Consequently, the accuracy and completeness of bank balance of Kshs.2,072,105 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Galole Constituency in accordance with ISSAI 30 on Code of Ethics. I have fulfilled 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 matter described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgetary Controls and Performance

During the year under review, the Fund had a final budget of Kshs.125,377,537 but the actual expenditure amounted to Kshs.122,805,432 resulting to an overall under expenditure of Kshs.2,572,105 or 2% as summarized below:

| Item | Budget (Kshs.) | Expenditure | Under | Over | Under/Over |
|-------------------------------------|--------------------|--------------------|-------------------|-------------------|------------|
| | | (Kshs.) | Absorption | Absorption | Absorption |
| | | | (Kshs.) | | (%) |
| Compensation of Employees | 5,665,952 | 1,837,300 | 3,828,652 | | 68% |
| Use of Goods and services | 24,062,276 | 13,705,721 | 10,356,555 | | 43% |
| Transfers to Other Government Units | 34,060,109 | 66,784,656 | | 32,724,547 | 96% |
| Other Grants and Transfers | 61,589,200 | 36,977,755 | 24,611,445 | | 40% |
| Acquisition of assets | | 3,500,000 | | 3,500,000 | 100% |
| Total | 125,377,537 | 122,805,432 | 38,796,652 | 36,224,547 | 2% |

The approval for the excess expenditures of Kshs.36,244,547 was not availed for audit review and management has not explained how it financed the over expenditures. The Fund also had under absorption of Kshs.38,796,652 or 31%.

Management, therefore, needs to review its budget planning and processes to avoid under and over absorption of its budgeted resources.

2.0 Project Implementation Status

The project status report availed for audit review indicated that a total of Kshs.81,896,552 was allocated for sixty-eight (68) projects. Further, out of the sixty-eight (68) projects, ten (10) projects with total allocation of Kshs.15,765,517 were on-going while the rest were complete as per details below: -

| | Project Name | Projects Description /Activities | Allocation Kshs | Current Status |
|----|--------------------------|--|------------------------|-----------------------|
| 1 | Employees' Salaries | Payment of staff salaries and gratuity | 2,513,644 | Ongoing |
| 2 | Goods and Services | Purchase of fuel, repairs and maintenance, printing, stationery, telephone, travel and subsistence, office tea, etc. | 1,113,749 | Ongoing |
| 3 | NSSF | Payment of NSSF Deductions | 38,400 | Ongoing |
| 4 | Committee Expenses | Payment of Committee sitting allowances, transport, conferences | 1,248,000 | Ongoing |
| 5 | Goods and Services | Purchase of fuel, repairs and maintenance, printing, stationery, telephone, travel and subsistence, office tea, etc. | 856,897 | Ongoing |
| 6 | Committee Expenses | Payment of Committee sitting allowances, transport, conferences | 600,000 | Ongoing |
| 7 | Capacity Building | Undertake Training of the PMCs/NG-CDFCs/Staff on NG-CDF Related issues | 1,000,000 | Ongoing |
| 8 | | To cater for any unforeseen occurrences in the constituency during the financial year | 4,094,828 | Ongoing |
| 9 | Hola County Commander | Construction of county commander offices | 2,000,000 | Ongoing |
| 10 | Hola AP camp Staff House | Construction of AP 4staff houses | 2,300,000 | Ongoing |
| | GRAND-TOTAL | | 15,765,517 | |

From the above, the budget was not fully implemented as envisaged. This has resulted to projects not being completed as planned. The slow and lack of completion of projects is to the detriment of delivery of goods and service to the residents of Galole Constituency.

3.0 Project Inspections

During the year under review, eight (8) projects with a total allocation of Kshs.10,457,023.80 were visited for verification on 24 May 2018 and the following state of affairs of the specific projects were observed: -

| NO. | Project Name | Cost (Kshs.) | Project | Observations |
|------------|--|---------------------|-------------------------------|---|
| 1 | Construction of offices | 1,956,644.00 | County Commander's Office PMC | The works were ongoing. However, no records were availed to show specific works carried out under each phase. |
| 2 | Construction of offices | 496,000.00 | Zubaki Chiefs Office PMC | Works were complete and in use and had been handed. However, no handing over report was availed to confirm the actual dates of handover considering that the project was still funded in the year under review to an amount of Kshs. 496,000. |
| 3 | Construction of 4 No. staff houses | 3,296,242.00 | Ap Staff Houses PMC | Works were in finishing stage. |
| 4 | Renovation of 5 No. classrooms | 1,400,00.00 | Rafiki Primary School PMC | Works were complete and in use. However, the floors of classrooms were already wearing out. The paint work looked faded and of poor quality or one coat only. Some of the desks provided were already damaged and not in use. |
| 6 | Construction of Dining hall at Galole model secondary school | 2,504,379.80 | Galole Sec.School | The project was completed and is being used as a dormitory by the boys. The project is not branded. |
| 7 | Renovation of NG-CDF Office(repair of roofs, floors, ceiling, wall painting) fencing and security office | 3,500,000.00 | Galole CDF office | The project was in use. However, the project file was not availed for audit review thus the nature and extent of renovation works could not be confirmed. |
| 8 | Proposed 2 No. double compartment | 600,000.00 | Hola Boys Sec. School | The project was complete and is in use though it is not branded. |

| | | | | |
|--|--|----------------------|--|--|
| | pit latrine at Hola Boys Secondary school | | | |
| | Total | 10,457,023.80 | | |

Lack of maintenance of project files, project BQs, hand-over minutes, poor workmanship and incomplete projects would indicate that there is poor coordination and lack of supervision of projects undertaken by the Fund. Lack of project branding would result to duplication of projects funded by various stakeholders/donors to the detriment of the welfare of the Galole constituents. There is need, therefore, to ensure that all projects are properly supervised to ensure satisfactory completion of the projects and branded.

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 (Cash 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 National Government Constituencies Development Fund - Galole Constituency'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 the management either intends to liquidate the Fund or 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 Fund's 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 of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

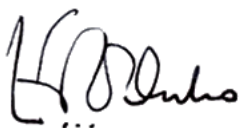
accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial 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 the Fund's 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 Fund's ability to continue offering 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 Fund to cease to continue offering 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 of the entities or business activities 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

16 July 2018