

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

REPORT ON THE FINANCIAL STATEMENT

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Malava Constituency set out on pages 9 to 26, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, 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 paragraph, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Malava Constituency as at 30 June 2017, and of its performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standard (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 raised in the Other Matter section of my report, based on the procedures performed, I confirm that nothing 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

1.0 Unconfirmed Committee Expenses

The statement of receipts and payments reflects full committee and sub-committee expenses incurred during the year under review amounting to Kshs.5,122,879.

However, the following anomalies were noted in relation to the expenses:

- (i) The CDFC established sub-committees were three (3) in number instead of the two allowed in the regulations.
- (ii) The schedule of meetings for the year under review was not available for audit review.
- (iii) Minutes of sub-committee meetings were not available for audit review.

- (iv) Imprests were issued for traveling and subsistence but were not recorded in the imprest register, hence it was not possible to confirm that all imprests issued were surrendered.

Arising from the aforementioned shortcomings, the occurrence and propriety of expenditure amounting to Kshs.5,122,879 cannot be confirmed.

2.0 Use of Goods and Services

2.1 Unaccounted for General Supplies and Services

Included in the use of goods and services balance of Kshs.9,946,997 reflected in the statement of receipts and payments for the year under review is the sum of Kshs.3,392,918 incurred on procurement of goods and services during the year under review. However, examination of records presented for audit revealed the following anomalies:

- (i) Stores ledger cards did not reflect receipt of the goods purchased.
- (ii) Stores record cards (S11) were not used to account for stores inventories.
- (iii) Similarly, serviced or repaired items were not certified by the users.

In view of these anomalies, it is not possible to confirm the occurrence and validity of expenditure totalling to Kshs.3,392,918 reported to have been incurred on procurement of goods and services during the year under review.

2.2 Unaccounted for Domestic Travel and Subsistence Expenditures

Included in the expenditure of Kshs.9,646,997 incurred on use of goods and services reflected in the statement of receipts and expenditure for the year under review is the sum of Kshs.1,431,200 spent on domestic travel and subsistence allowances. However, imprests issued for traveling and subsistence were not recorded in the imprest register. As a result, it was not possible to confirm that the imprests were spent on the intended purposes and were thereafter surrendered as provided for in public financial regulations.

In the absence of vital documents and records, occurrence and validity of expenditures totalling Kshs.1,431,200 out of the aggregate sum of Kshs.9,946,997 incurred on the use of goods and services during the year under review cannot be confirmed.

3.0 Unconfirmed Bursaries to Needy Students

Included in other grants and transfers balance of Kshs.55,498,879 reflected in the statement of receipts and payments is a sum of Kshs.39,864,800 issued for bursaries to needy students during the year under review. However, bursary application forms were

not completed by the bursary sub-committees as required. Further, the amount awarded to each applicant was not indicated on the respective application form.

In the circumstance, it is not possible to confirm the accuracy and propriety of the expenditure of Kshs.39,864,800 out of the sum of Kshs.55,4998,879 reported to have been incurred on other grants and transfers during the year under review.

4.0 Unsupported Payable Balance

The statement of assets as at 30 June 2017 reflects a net liabilities balance of Kshs.12,062,875 which is explained under Note 15.3 to the financial statements as other pending payables on the said date.

However, details on the payables including names of suppliers of the goods and services, work done and certified, invoices and demand notes issued, goods receipts and delivery notes to support the balances have not been disclosed. In the absence of the said documents and information, the accuracy, occurrence and existence of NGCDF - Malava payables balance of Kshs.12,062,875 as at 30 June 2017 cannot be confirmed

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Malava Constituency 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.

Key Audit Matter

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 matters described in the Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget Performance-Low Absorption of Expenditure

The budget analysis of the entity revealed the variances as tabulated below:

Audit Components	Current year Final Budget Figures	Actual Expenditure/ Receipts	Variance	Difference %
	Kshs.	Kshs.	Kshs.	%
Transfers from CDF Board	155,270,577	82,396,552	72,874,025	47%

Proceeds from Sale of Assets	-	-		
Other Receipts	270,000	261,000	9,000	
Totals	155,540,577	82,657,552	72,883,025	47%
Payments				
Compensation of Employees	2,808,070	2,244,534	563,536	20%
Use of goods and services	11,003,222	9,946,997	1,056,225	9.6%
Transfers to Other Government Units	79,930,824	75,542,631	4,388,193	5.5%
Other grants and transfers	57,305,930	55,498,879	1,807,051	3.2%
Acquisition of Assets	4,222,531	244,660	3,977,871	94%
Other Payments – AIA	270,000	0	270,000	100%
Total	155,270,577	143,477,701	11,792,876	7.6%

The statement of appropriation reflects a budget of Kshs.4,222,531 for acquisition of assets during the year under review. However, only Kshs.244,660 was spent on acquisition of assets, resulting in a very low budget absorption rate of 6%.

Other items whose expenditures fell below the budget were: compensation of employees Kshs.2,808,070 and actual expenditure of Kshs.2,244,534 (80%), use of goods and services Kshs.9,296,341 and actual expenditure of Kshs.9,946,997 (90%).

No plausible explanation has been provided by management for the under-expenditures.

2.0 Status of Projects Under Implementation

The status of projects under implementation by NGCDF - Malava as at the time of audit was as follows:

Sector	Not Started		Ongoing		Complete	
	No.	Value Kshs.	No.	Value Kshs.	No.	Value Kshs.
Administration	2	3,169,257	4	14,183,619	5	20,732,564
Education			85	133,667,985	215	303,473,297
Sports				0	3	3,762,818
Security			4	1,510,000	19	11,540,450
Roads				0	1	4,736,858

Health				0	9	10,877,002
Environment				0	3	2,350,261
Emergency			2	4,649,056		0
Total	2	3,169,257	95	154,010,660	255	357,473,250

Between 2013/14 and the , end of the year under review on 30 June 2017, and 255 projects worth Kshs.357,473,250 had been completed, 95 projects worth Kshs.154,010,660 were on-going while implementation of two planned projects worth Kshs.3,169,257 had started.

3.0 Lack of Public Participation in Decision-making

Contrary to the regulations on management of the Fund, there was no evidence of public participation in conceptualization of projects implemented during the financial year.

In the absence of public participation, it is not possible to confirm that the projects implemented resonated with public needs and thus attained optimal value for the funds invested.

4.0 Compensation of Employees

4.1 Irregular Remuneration of Staff

Examination of the NGCDF - Malava Constituency payroll records revealed that members of staff were only paid basic salary without allowances such as; house, commuter and leave allowances as envisaged by Sections C.8(1), C.9(1) and C.11(1) of the Public Service Commission Human Resource Policies and Procedures Manual for the Public Service, 2016.

The practice may amount to violation of basic constitutional rights of the workers under article 41(2)(a) of the Constitution of Kenya, 2010 which states that every worker has the right to fair remuneration.

4.2 Irregular Payment of Gratuity

During the year under review, Kshs.534,378 was paid as gratuity to various employees.

The payments were made as shown in the table below:

Name of Officer	Duration of Service	PV No./Cheque No.	Designation	Date of First Appointment	Amount Kshs.	Due Date
Felistus I. Mukoyi	May, 2016-May, 2017	401760/6633	Accounts Assistant/JG `J`	1st May, 2013	124,124	30th April, 2019

Jane Chisika Mutili	''	401760/6634	Office Secretary/JG `G`	2nd May, 2013	90,272	30th April, 2019
Michael Mulupi Sayia	''	401760/6635	Driver/JG `G`	1st May, 2013	84,630	30th April, 2019
Ian Lavusa Madaga	''	401760/6636	Clerk of Works/JG `G`	1st September, 2013	84,630	31st August, 2019
Miriam Nechesa Shinachi	''	401760/6637	Office Messenger/JG `D`	1st May, 2013	45,136	30th April, 2019
Nathan Lumbasi Lumuli	''	401760/6638	Compound Cleaner/JG `D`	2nd May, 2013	45,136	30th April, 2019
Shadrack Lusala Mukwe	''	401760/6639	Receptionist/JG `H`	1st November, 2015	60,450	31st October, 2018
				Total	534,378	

However, the respective three-year contract periods had not lapsed by the time the payments were made. Therefore, the payments were irregular.

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 Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management intends to liquidate the Fund or cease its 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 Responsibility 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 and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 ability of the Fund 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 Fund 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 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 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

08 October 2018