

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND- AWENDO CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund- Awendo Constituency set out on pages 8 to 32, which comprise the statement of financial assets as at 30 June 2018, statement of receipts and payments, statement of cash flows and summary statement of appropriation 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 effects 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 National Government Constituencies Development Fund – Awendo Constituency as at 30 June 2018, 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Transfer to Other Government Units

1.1. Construction of a Classroom at Lwanda Kukuro Primary School

Included in the transfer to other government units' expenditure of Kshs.9,174,725 is an amount of Kshs.600,000 which was paid for construction of a classroom at Lwanda Kukuro Primary School. Documentation and expenditure records relating to the project were not provided for audit review. Consequently, the validity and propriety of the expenditure of Kshs.600,000 could not be confirmed.

2. Transfers from NG-CDF Board

The summary statement of appropriation reflects transfers from NG-CDF Board of Kshs.50,914,848 while the statement of receipts and payments reflects the receipt of Kshs.47,405,172, leading to unreconciled and unexplained variance of Kshs.3,509,676. In the circumstances, the accuracy of the receipts could not be ascertained.

3. Unreconciled Difference in Expenditure

In addition, the summary statement of appropriation reflects total payments of Kshs.46,210,532 while the statement of receipts and payments reflects the total expenditure of Kshs.46,610,532, resulting in unreconciled difference of Kshs.400,000. In the circumstances, the accuracy of the total expenditure could not be ascertained.

4. Net Financial Position

The statement of financial assets as at 30 June 2018 reflects net financial position of Kshs.4,304,326 after netting-off liabilities amounting to Kshs.400,000. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the statement of financial assets erroneously shows at the bottom net liabilities instead of the net financial position of Kshs.4,304,326.

5. Unsupported Adjustments

The summary statement of appropriation indicates an original budget of Kshs.86,810,345, an adjustment of Kshs.21,788,986 bringing the total final approved budget to Kshs.108,599,331. However, the adjustments under payments in the statement of appropriation were not adequately supported by approved code list showing the 2016 - 2017 financial year items that were to be financed in 2017-2018 financial year. In the absence of a list of rolled over projects, the validity of the adjustments 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- Awendo 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 Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no key audit matters to communicate in my report.

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Construction of a Classroom at Adago Primary School

Included in the transfers to other government entities expenditure of Kshs.9,174,725 is an amount of Kshs.400,000 which was paid for construction of a classroom at Adago Primary School. The funds were initially meant for fencing but the school management and project implementation committee instead re-allocated the funds to construction of a classroom. The management did not provide for audit review any authority from the NG-CDF Board to support the re-allocation of funds. Consequently, the regularity and value for money of the project could not be ascertained.

2. Construction of a Classroom at Pheres Oluoch Kanindo Secondary School

Included also in the transfer to other government units' expenditure of Kshs.9,174,725 is an amount of Kshs.500,000 which was paid for construction of a classroom at Pheres Oluoch Kanindo Mixed Secondary School. Physical verification of the project revealed that only 57 percent of the work was done after which the contractor moved out of the site. Consequently, the value for money and regularity of the expenditure of Kshs 500,000 incurred on the project could not be confirmed.

3. Construction of Houses at Dede Administration Police Camp

Included in other grant and transfers expenditure of Kshs.30,965,407 is an amount of Kshs.800,000 which was paid for construction of Administration Police houses at Dede Administration Police Camp. Physical verification done at the project site revealed that the contractor had done only the substructure and superstructure estimated to be equivalent to 46 percent of the contract price. There was no work-in-progress as the contractor had left the site. Consequently, the regularity and value for money of the expenditure incurred on the project could not be confirmed.

4. Budget Performance Analysis

The NGC-DF Awendo Constituency had an approved final budget of Kshs.108,599,331 for the year 2017/2018. However, the actual receipts for the year were 50,914,848, resulting in a budget deficit of Kshs.57,684,483 or 53% on the expected revenue.

The actual expenditure was Kshs.46,210,532 against the approved budget of Kshs.108,599,331, leading to a gross under-expenditure of Kshs.62,388,799 or 57%. Significant under-expenditure occurred on the following items:

Item Description	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under-Expenditure (Kshs)	Under-Expenditure in (%)
Compensation of employees	3,279,676	1,770,411	1,509,265	46%
Use of goods and services	7,067,069	4,699,989	2,367,080	33%
Transfer to other Government units	47,405,985	8,774,725	38,631,260	81%

Item Description	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under-Expenditure (Kshs)	Under-Expenditure in (%)
Other grants and transfers	50,846,601	30,965,407	19,881,194	39%

In the circumstances, the under-expenditure on the approved budget items implies that the Fund was not able to achieve some of its core objectives and, thereby impacting negatively on the efficiency and effectiveness of the service delivery to the constituents.

5. Projects Verification

Thirteen projects with a total expenditure of Kshs.13,024,725 were physically verified and observations made as summarized below:

Project Name	Activity	Budget	% Level of Completion	Observations
Rinya Mixed Secondary School	Construction of a classroom	1,500,000	57	Expenditure returns not provided for audit.
Waway Primary School	Construction of a classroom	574,725	95	Painting not done.
St Nicholas Koyier Secondary School	Construction of a classroom	500,000	49	Project still incomplete after the expected completion date.
Nyakuru Mixed Secondary School	Construction of a borehole	1,100,000	100	Complete and is in use.
Dede Chief's Camp	Construction of Administration Police staff houses	1,200,000	30	A variation in materials used when compared to Bill of Quantities.
Alara Dago Primary School	Fencing of the school compound	400,000	70	Irregular reallocation of funds from fencing to the renovation of two classrooms.
Otacho Primary School	Fencing of the school compound	400,000	100	Complete.
Lwanda Kokuro Primary School	Construction of a classroom	600,000	55	Abandoned project. Expenditure and procurement details not provided for audit.
Pheres Oluoch Kanindo Mixed Secondary School	Construction of 1 classroom	500,000	57	Abandoned project.
Awendo Library	Construction of a library	4,000,000	49	Incomplete project
Pehill High School	Reroofing of 2 dormitories	850,000	100	Complete and is in use.
Saka Primary School	Fencing of the school compound	400,000		Irregular reallocation of funds from fencing to the purchase of land.
Gamba Mixed Secondary School	Purchase of school bus	1,000,000		Expenditure, procurement and ownership

Project Name	Activity	Budget	% Level of Completion	Observations
				documents not provided for audit review.
Total		13,024,725		

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and 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 Those Charged with Governance

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 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 governance.

In preparing the financial statements, management is responsible for assessing the ability of National Government Constituencies Development Fund- Awendo Constituency to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to 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.

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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 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 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 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 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 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 sustaining 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 National Government Constituencies Development Fund- Awendo Constituency 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

08 July 2019