

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – BALAMBALA 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 - Balambala Constituency set out on pages 1 to 26, which comprise the statement of financial assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development 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 National Government Constituencies Development Fund - Balambala 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Transfers to Other Government Units

Note 6 to the financial statements reflects Kshs.24,365,517 being transfers to other Government units which includes Kshs.20,865,517 transfer to primary schools, which in turn includes Kshs.19,724,138 and Kshs.1,075,862 paid to General Motors East Africa Limited and Commissioner of Domestic Taxes respectively for the purchase of two (2) water bowsers, GK B443S and GK B445S (Isuzu) through direct procurement method. However, the following anomalies were noted: -

- i. The logbooks were not availed for audit confirmation and thus the ownership of the vehicles could not be ascertained.
- ii. Payment was made without an invoice and only a pro-forma invoice was used to support the payment.
- iii. Approved project code list to show whether the Fund budgeted for the water bowsers was not availed for audit review.
- iv. Physical verification conducted in March 2019 revealed that the two (2) water bowsers are being used by the community as opposed to primary schools project and thus the management and maintenance of the vehicles remains uncertain.

Consequently, the probity of the expenditure of Kshs.20,800,000 as at 30 June 2018 could not be ascertained.

2. Other Grants and Transfers

Included in the other grants and transfers amount of Kshs.23,660,800 under note 7 to the financial statements is an amount of Kshs.14,000,000 and Kshs.7,146,000 allocated to secondary schools and tertiary institutions respectively as bursary transfers. However, a review of the expenditure and other supporting documents revealed that an amount of Kshs.2,268,000 was not supported with acknowledgement receipts or letters from learning institutions that were purported to have received the bursaries.

In the circumstances, the probity of the expenditure of Kshs.2,268,000 as at 30 June 2018 could not be confirmed.

3. Cash and Cash Equivalents

Note 9 and 10A to the financial statements reflects a bank balance of Kshs.37,586,286 as at 30 June 2018 which includes an amount of Kshs.23,891,043 held at Chase Bank, Garissa Branch (Acc. No.8212210001). However, the following anomalies were noted:

- i. The Chase Bank has been put under receivership by the Central Bank of Kenya due to underperformance and the recoverability of the public funds held at the bank remains uncertain.
- ii. The bank reconciliation statement for the month of June 2018 revealed that there were unrepresented cheques totaling to Kshs.10,783,726, out of which cheques amounting to Kshs.811,400 were stale as at 30 June 2018. These cheques had not been reversed in the cash book consequently overstating the payments.

In the circumstances, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.37,586,286 as at 30 June 2018 is fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Balambala 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 section of my report, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

1. Budget Control and Performance

1.1 Budget Performance Analysis

A review of the statement of budget appropriation revealed that, the Fund had an approved budget of Kshs.124,095,192. Out of the amount budgeted, a sum of Kshs.25,905,537 was unspent balance from the financial year 2016/2017. Budget utilization on receipts and expenditure are as follows: -

Item	Budget Kshs.	Actual Kshs.	Under-difference Kshs.	Actual % of Budget
Receipts	124,095,192	43,405,172	80,690,020	35%
Expenditure	124,095,192	55,615,466	68,479,726	45%

The above analysis reflects actual receipts of Kshs.43,405,172 against budgeted amount of Kshs.124,095,192 resulting in a short fall of Kshs.80,690,020 representing 65% of undisbursed funds from the National Government Constituencies Development Fund Board. Further, the Fund spent an amount of Kshs.55,615,466 representing 45% of the approved budget of Kshs.124,095,192.

1.2 Under Expenditure on Overall Budget

The Fund recorded an overall 45% under expenditure during the year under review as follows:

Item	Approved Budget Kshs	Actual Expenditure Kshs	Under - Expenditure Kshs	% Difference in Under - Expenditure
Compensation of employees	2,694,140	1,331,728	1,362,412	49%
Use of goods and services	6,564,083	4,861,792	1,702,290	26%
Transfer to other Government units	55,476,383	24,365,517	31,110,866	56%
Other grants and transfers	49,587,931	23,660,800	25,927,131	52%
Acquisition of assets	1,395,630	1,395,629	0	0 %
Other payments	8,377,027	0	8,377,027	100%
Total	124,095,192	55,615,466	68,479,726	45%

From the above analysis, the Fund realized under expenditure in all the 5 items budgeted for the year under review.

1.3 Project Implementation and Management

During the financial year under review the Fund allocated Kshs.64,068,722 to nineteen (19) projects in various sectors including education, sport and security. Under Education sector, the Fund purchased two (2) water bowsers and one (1) 51-seater bus for Balambala Secondary School.

Analysis of the project implementation status revealed that the two (2) projects were completed while seventeen (17) had not started as detailed below: -

Sector	Project Status	Project Cost Kshs.	No. of Projects
Education	Complete	24,300,000	2
	Ongoing	0	0
	Not started	28,668,722	11
Security	Complete	0	0
	Ongoing	0	0
	Not started	9,400,000	5
Sport	Complete	0	0
	Ongoing	0	0
	Not started	1,700,000	1
Total		64,068,722	19

Failure to complete the projects within the stipulated period is likely to deny the Balambala constituents the much-needed services.

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 section of my report, 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 Opinion

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained 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 Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting, unless the management either intends to liquidate the Fund or to cease operations, or 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 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 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 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 to the Fund 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 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

24 July 2019