

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – BUTERE 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 – Butere Constituency set out on pages 1 to19, which comprise the statement of financial assets as at 30 June 2018, and the statements 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 effects 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 – Butere 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

Transfer to Other Government Entities

Included in the transfer to other government entities figure of Kshs.9,620,360 were payments made to various primary and secondary schools for various projects totaling Kshs.9,450,000. However, no expenditure returns were availed to confirm how grants disbursed to the listed institutions Project Management Committees (PMCs)) were utilized during the year under review. In addition, audit inspection conducted on selected projects' sites revealed anomalies as detailed below;

Date	PV No.	Cheque No.	Description	Amount of grant (Kshs)	Remarks
31.05.18	54	007635	Eshianini Primary school - Construction of two classrooms	3,450,000	No project progress records maintained

Date	PV No.	Cheque No.	Description	Amount of grant (Kshs)	Remarks
31.05.18	52	007632	Matibira Primary School- Construction of two (2) classrooms.	1,000,000	No project progress records maintained
28.06.18	72	007718	Mwilala Primary School- Renovation of four (4) classrooms (roof replacement, window panes fixing, flooring, painting, and construction of verandah).	1,000,000	No project progress records maintained
23.06.18	72	007717	Ebukhokoro Primary School -8 door pit latrine and administration block.	1,000,000	-No expenditure records -The 8-door pit latrine had not been completed Contractor was not on site
26.06.18	72	007716	Eshibuche Primary School -Administration block(roofing, walling, plastering and painting)	1,000,000	-No expenditure records maintained. -Painting of the administration block not done. Contractor not on site.
02.05.18	50	007630	Mabole Boys Secondary School-Completion of dormitory.	1,000,000	-No expenditure records maintained -Contractor not on site -Dormitory not completed.
22.05.18	51	007631	St. Andrews Imanga Mixed Secondary School -Construction of tuition block.	1,000,000	-No expenditure records maintained -Contractor not on site.

Date	PV No.	Cheque No.	Description	Amount of grant (Kshs)	Remarks
					-Only the slab had been done.
			Total	9,450,000	

In the circumstances, it was not possible to ascertain accuracy and probity of expenditure totaling to Kshs.9,450,000.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Butere 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, I have determined that there are no key audit matters to communicate in my report.

Other Matters

1. Budget Performance and Control

1.1 Budget Analysis

During the year under review, the Fund had approved budget of Kshs.86,810,345, of which only Kshs.46,109,318 was received, comprising Kshs.45,169,318 from NG-CDF Board and Kshs.1,000,000 from other receipts. The approved budget was under funded to the tune of Kshs.41,641,027. No explanation was given for such underfunding.

Further, in addition to the cash balance of Kshs.14,834,467 brought forward from previous year, the Fund only spent Kshs.43,659,073 out of the available total cash of Kshs.101,644,812 during the year under review. Consequently, the overall budget under underutilization was Kshs.57,985,739 out of available budget of Kshs.101,644,812 equivalents of 57%.

1.2 Project Implementation Status Analysis

According to the project implementation status report as at 30 June 2018, The Fund's

CDFC had disbursed Kshs.466,302,947 to implement 572 projects out of which 84 with disbursements totaling Kshs.99,151,219 were ongoing as analyzed and summarized below:

Period/Project Status		Completed	Ongoing	Total
2016/17 & Earlier	No. of Projects	438	59	497
	Value of Projects (Kshs)	309,538,410	72,954,192	382,492,602
2017/18	No. of Projects	50	25	75
	Value of Projects (Kshs)	57,613,318	26,197,027	83,810,345
Total	No. of Projects	488	84	572
	(Kshs)	367,151,727	99,151,219	466,302,947

As noted above included in the 84 ongoing projects were 59 projects with disbursements of Kshs.72,954,192 relating to 2016/2017 and earlier with some going as far back as 2013/2014 financial year. It was not clear why projects would remain ongoing for over 5 years casting doubts on their completion.

REPORT ON LAWFULNESS AND EFFECTIVE IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness in the 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 money has not been applied lawfully and in an effective way.

Basis for Conclusion

Cash and Cash Equivalents

Cancellations in the Cashbook

According to Public Finance Management Regulations (National Government, 2015) (16) (2), entries in the financial records or documents shall not be obliterated, erased or altered by being written over. However, examination of the cash book revealed that the Fund's cashbook pages No.0013-0021 had several cancellations which were not signed for. This is an indication of weak internal controls systems.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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 else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis of 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 effective 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 Fund's ability to continue 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 liquidate the Fund or 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 Fund's 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.

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 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 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 Fund 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

26 August 2019