

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND-CHANGAMWE 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 - Changamwe Constituency set out on pages 6 to 32 which comprise the statement of 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 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 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 - Changamwe 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 No.30 of 2015.

Basis for Qualified Opinion

1.0 Presentation of Financial Statements

The financial statement for the year ended 30 June 2018 availed for audit had the following anomalies:

- 1.1** Numbering of page No. 1 is repeated twice.
- 1.2** Annex No.4 is repeated twice both on pages 29 and 30 of the financial statements.
- 1.3** The financial statements on pages 6 to 9 do not indicate the year covered.
- 1.4** The statement of assets for the year ended 30 June 2018 reflects a comparative balance of Kshs.763,794 in respect to prior year adjustments. However, the management has not explained why the prior year adjustments were reflected in the restated financial statements.

1.5 The statement of assets for the year ended 30 June 2018 reflects deficit for the year as a positive figure of Kshs.37,650,526 instead of negative figure of Kshs.(37,560,526) thus confusing the readers of these financial statements.

As a result, the financial statements do not comply with the presentation guidelines prescribed by the Public Sector Accounting Standards Board.

2.0 Use of goods and services

Note 5 to the financial statements for the year ended 30 June 2018 reflects committee allowances of Kshs.944,390. This balance includes payments of allowances of Kshs.100,000 which relate to the year 2016/2017. However, the same was not captured as pending bills in the year 2016/2017 financial statements as summarized below:

Date	Committee	Amount Kshs.
28 February 2017	Tender Opening	10,000
7 March 2017	Evaluation	60,000
6 April 2017	Tender Opening	10,000
11 April 2017	Tender Opening	10,000
19 June 2017	Tender Opening	10,000
	Total	100,000

In the circumstances, the accuracy and completeness of committee allowances balance of Kshs.100,000 for the year ended 30 June 2018 could not be confirmed.

3.0 Cash and Bank Balances

Note 10A to the financial statements for the year ended 30 June 2018 reflects bank balance of Kshs.9,156,633. However, the bank reconciliation statement for the month of June 2018 reflected some anomalies as analyzed below:

3.1 Receipts in the Bank Statement not Recorded in the Cash Book

The bank reconciliation statement for the month of June 2018 reflects receipts in bank statement not in cashbook of Kshs.31,500 dated 9 March 2018 that had not been recorded in the cashbook as at 30 June 2018.

Consequently, the accuracy and completeness of cash and bank balance of Kshs.9,156,633 as at 30 June 2018 could not be confirmed.

3.2 Stale Cheques

The bank reconciliation statement reflects stale cheques amounting to Kshs.185,361 that had not been written back to the cashbook as at 30 June 2018.

Consequently, the accuracy and completeness of cash and bank balance of Kshs.9,156,633 as at 30 June 2018 could not be confirmed.

3.3 Bank Charges

Note 10A to the financial statements for the year ended 30 June 2018 reflects bank balance of Kshs.9,156,633. However, the bank reconciliation statement reflects bank charges amounting to Kshs.76,600 that were treated as reconciling items as at 30 June 2018 instead of being expensed in the year.

In the circumstances, the accuracy and completeness of cash and bank balance of Kshs.9,156,633 as at 30 June 2018 could not be confirmed.

3.4 Overcast in Cashbook.

The bank reconciliation statement reflects an overcast in cashbook of Kshs.22,500 which was used as a reconciling item.

In the circumstances, the accuracy and completeness of cash and bank balance of Kshs.9,156,633 as at 30 June 2018 could not be confirmed.

4.0 Compensation of Employees

Note 4 to the financial statements for the year ended 30 June 2018 reflects basic wages of contractual employees of Kshs.1,999,722. However, an extract from the payroll reflects total basic wages to contractual employees of Kshs.1,945,922 resulting to unreconciled nor explained variance of Kshs.53,800.

Consequently, the accuracy and completeness of basic wages to contractual employees of Kshs.1,999,722 for the year ended 30 June 2018 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 - Changamwe 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 judgment, 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 other key audit matters to communicate in my report.

Other Matter

1. Budgetary control and Performance

1.1 Revenue Budget

The fund's revenue budget for the year under review was Kshs.199,435,091 against a total actual receipts of Kshs.89,230,607 resulting to budget under funding of Kshs.110,204,484 or 55.3% as summarized below:

Item	Budgeted Amount	Actual Receipts	Under Collection	Under Collection (%)
	Kshs.	Kshs.	Kshs.	
Transfer from CDF Board	199,415,091	89,230,607	110,184,484	55.3%
Other receipts	20,000	-	20,000	100%
Total	199,435,091	89,230,607	110,204,484	55.3%

The under collection of Kshs.110,204,484 representing 55.3% of the budget is an indication that projects have not been funded as planned. However, there is unused funds at the end of the year out of the funds disbursed amounting to Kshs.9,206,633. The underutilization of funds may have impacted negatively on the delivery of goods and services to the citizens of Changamwe. This may be an indication of over-budgeting by the National Government Constituencies Development Fund - Changamwe Constituency.

1.2 Expenditure Budget

The fund's overall budget expenditure for the year under review was Kshs.199,415,089 against total actual expenditure of Kshs.80,023,974 resulting to budget under absorption of Kshs.119,411,115 or 60% as summarized below:

Item of Expenditure	Final Budget	Actual Expenditure	Under Absorption	% of under Absorption
	Kshs.	Kshs.	Kshs.	
Compensation to employees	3,823,401	3,636,172	187,229	4.9%
Use of Goods and services	8,766,930	4,013,369	4,753,561	54%
Transfer to other Government Units	83,903,021	35,078,055	48,824,966	58%
Other grants and transfers	76,227,469	37,296,378	38,951,091	51%
Acquisition of Assets	10,637,931	-	10,637,931	100%
Other payments	4,677,027	-	4,677,027	100%
Awaiting approval from Board	11,379,310	-	11,379,310	100%
Total	199,415,089	80,023,974	119,411,415	60%

The under absorption of Kshs.119,411,415 representing 60% of the budget is an indication that projects have not been implemented as planned. The underutilization of funds may have impacted negatively on the delivery of goods and services to the citizens of Changamwe or

may be an indication of over-budgeting by the National Government Constituencies Development Fund- Changamwe Constituency.

1.3 Project Implementation Status

1.3.1 Ongoing Projects

The project status report as at 30 June 2018 availed for audit reflected six (6) projects with a total budget of Kshs.24,877,586 were ongoing as at 30 June 2018 as summarized below:

No	Financial Year	Project Name	Activity	Expected Completion Date	Project Cost (Kshs)
1.	2016/2017	Social Security Program	Support orphans, vulnerable children, older persons and persons with disabilities and destitute families	30-Jun-17	8,189,655
2.	2016/2017	Kipevu Primary School	Replacement of Asbestos roofing and refurbishment of two classrooms.	30-Dec-17	1,800,000
3.	2016/2017	Magongo Primary School	Construction of administration block with storey foundation.	30-Dec-17	4,000,000
4.	2013/2014	Portreitz school for the physically handicapped	Purchasing two 10,000 litres plastic tanks, piping and immersing of underground tank and construction of stand for overhead tanks for fresh water for drinking	30-Jun-15	250,000
5.	2017/2018	NG-CDFC Office	Construction of NG-CDFC Office	30-Jun-18	6,000,000
6.	2017/2018	NG-CDFC Office	Construction of NG-CDFC Office	30-Jun-18	4,637,931
	Total				24,877,586

The above table reflects some projects with expected completion dates of 30 June 2015, 30 June 2017 and 30 December 2017. However, as at the time of our audit in the month of January 2019, the projects had not been completed. The slow pace of project implementation affects goods and service delivery to the residents of Changamwe Constituency and the intended purpose of the projects may not be realized.

1.3.2 Projects Not Started

The project status report as at 30 June 2018 availed for audit reflected nine (9) projects approved with a total budget of Kshs.43,555,733 had not been started as at 30 June 2018 as summarized below:

No	Project Name	Financial Year	Activity	Completion Date	Project Cost (Kshs)
1	Kalahari Stairs	2017/2018	Construction of gabions	30-Jun-18	1,450,000
2	Environmental Activities	2017/2018	purchase and planting of certified tree seedlings in the constituency	30-Jun-18	500,000

No	Project Name	Financial Year	Activity	Completion Date	Project Cost (Kshs)
3	Mwingo Primary School (proposed)	2017/2018	Construction of 3 no classrooms with storeyed foundation	30-Jun-18	7,500,000
4	Mwingo Primary School(proposed)	2017/2018	Construction of modern toilet block	30-Jun-18	1,405,733
5	Airport Secondary School	2017/2018	Construction of a new school tuition block	30-Jun-18	20,000,000
6	Gome Primary School	2017/2018	Construction of Teachers' toilet block with a septic tank	30-Jun-18	1,200,000
7	Kipevu Primary School	2017/2018	Renovation of 3 No .classrooms	30-Jun-18	2,000,000
8	Kwa Hola Primary School	2017/2018	Construction of Perimeter Wall	30-Jun-18	4,500,000
9	Magongo Primary School	2015/2016	Refurbishment by Re-roofing, Plastering, Painting, Flooring, Wiring and Ventilating.	28-Feb-17	5,000,000
	Total				43,555,733

The above state of affairs is an indication of lack of proper planning and prioritizing citizen's needs in the budget making process mechanism. Service delivery to the residents of Changamwe Constituency and the intended purpose of the projects may not be realized.

1.3.3 Project Inspection

Audit inspection of ten (10) projects with a total allocation of Kshs.31,980,205 during the month of January 2019 indicated the following state of affairs of the following three (3) projects: -

No	Project Verified	Project Activity	Amount Kshs.	Observations
1.	Changamwe - Mulolongo	Proposed installation of water tank ,perimeter wall and water piping at changamwe mulolongo	5,000,000	Water tank installed and perimeter wall constructed. However, it was not in use by the time of inspection
2.	Airport Primary School	Construction of 2 classroom	3,000,000	Project not started. Land yet to be acquired
3.	Changamwe police station	Proposed construction of cell at Changamwe police station	1,500,000	Cell complete and was not in use as water had not been installed
Total			9,500,000	

The Changamwe Mulolongo project is complete not put in use is an indication of lack of public participation when prioritizing the projects. Airport primary land not yet acquired is an indication of lack of proper planning by the committee before approval and disbursement of funds. Delay in use of complete projects cast doubt on value for money for public funds.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources / 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 resources have not been applied lawfully and in an effective way.

Basis of Conclusion

1. Use of Suppliers not in the in Prequalification list

Note 5 to the financial statements for the year ended 30 June 2018 reflects insurance costs of Kshs.354,220. However, the insurance firm used was not in the list of prequalified suppliers contrary to section 57(1) of public procurement and disposal Act 2015 which requires the head of the procurement function of a procuring entity to maintain and update lists of registered suppliers, contractors and consultants in the categories of goods, works or services according to its procurement needs.

The fund was therefore, in breach of the law.

2. Project Management Committee Bank Balances

Annex 4 to the financial statements for the year ended 30 June 2018 reflects project management committee bank balances amounting to Kshs.63,365,447.96 out of which funds totalling to Kshs.17,977,756 were lying idle in the bank accounts since the Projects were complete.

This was contrary to Section 12(8) of National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account.

No.	PMC	Bank	Account No	Bank balance
1	Kwa Omar Mwadunyo road	Equity	1200266825492	2,999,436
2	Changamwe Primary school	Equity	1200299363474	90,673
3	Mwijabu Primary school	Equity	1200262553498	1,395
4	St. Lwanga Full primary school	Equity	1200262556674	3,770
5	Fortreitz District Hospital	Equity	1200262183698	4,482,899
6	Airport Primary school	Co-operative	01141619394600	10,399,582
	Total funds			17,977,756

Therefore, the management was in breach of laws.

3. Pending Accounts Payables

Note 15.1 to the financial statements for the year ended 30 June 2018 reflects pending bills accounts payables for supply of services amounting to Kshs.2,365,000. However, this balance was in respect to unpaid office rent that had accrued since the year 2013. The management has not explained why the same had not paid for six (6) years despite the fact

that the section 9 of National Government Constituencies Development Fund Act allows the Constituency committee to use not more than five (5) percent of its annual budget on administration expenses. The fund risks being taken to court for non-payment of rent and the accrued rent arrears may attract penalties to the fund. Further, the balance of Kshs. 2,365,000 as at 30 June 2018 do not include a provision for penalties and other charges that the debt may attract.

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 sections of my report, 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.

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 ability of the National Government Constituencies Development Fund - Changamwe Constituency to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the National Government either intends to liquidate the 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 financial reporting process, reviewing the effectiveness of how the fund 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 fund's 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 fund's 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 National Government Constituencies Development Fund – Chagamwe Constituency ability to continue as a going concern or 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 National Government Constituencies Development Fund – Chagamwe Constituency to cease to continue as a going concern or 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 National Government Constituencies Development Fund – Chagamwe 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

16 April 2019