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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Eldama Ravine Constituency set out on pages 11 to 30, 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 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund – Eldama Ravine 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 National Government Constituencies Development Fund Act, 2015.

Basis for Opinion

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

Other matter

Budget Utilization and Performance

The summary statement of appropriation: recurrent and development combined reflects final budget and actual on comparable basis amounts of Kshs.99,160,850 and Kshs.43,405,172

respectively. This is reflective of budget underfunding of Kshs.55,755,678 or 43.8% due to delay in disbursement by the NGCDF Board. Further, the transfers from NGCDF Board figure in the statement of receipts and payments differs with figure in the summary statement of appropriation: recurrent and development combined by Kshs.838,760. From the foregoing, the Constituents of Eldama Ravine Constituency may have not received services as planned from the delay in the disbursements of funding.

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 matter(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in 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 resources have not been applied lawfully and in an effective way.

Basis for conclusion

1. Unaccounted for Expenditure - Eldama Ravine Library Project

The statement of receipts and payments reflects payments towards acquisition of assets of Kshs.4,669,256 as disclosed under Note 8, to the financial statements. This amount relates to the construction of Eldama Ravine Library project. However, examination of the project file revealed no expenditure records. Consequently, it was not possible to confirm rightful spent of the funds on the project.

2. Incomplete Projects

2.1 Koibatek Technical Training Institute

A review of the Fund payments revealed payment of Kshs.1,063,710 to a contractor towards the construction of perimeter fence and a gate at Koibatek Technical Training Institute. However, physical verification at the project site on 13 March 2019 revealed the following unsatisfactory matters: -

i. The contract agreement for the project was not provided for audit review, consequently it was not possible to ascertain the contract price and duration of the project;

ii. Statement for payments made on account was not attached to the payments made, it was therefore not possible to ascertain the basis for the amounts paid;

iii. The perimeter wall had developed cracks before its completion of works; and

iv. No drainage holes were provided for on the walls despite having been provided for in the bill of quantities.

It was further established that the contractor had been paid in full contract for the contract as at 30 June 2018 despite the works being incomplete. No explanation has been rendered for the inconsistency.

2.2 Kiptuno Primary School

During the year under review, Kiptuno Primary School was allocated Kshs.500,000 vide cheque No. 4258 dated 4 June 2018 for completion of mini office unit. Information available indicates the project was started in the year 2016/2017 and having been allocated Kshs.500,000. However, it was observed that the school management varied from the approved proposal and added an extension of the staffroom without seeking authority. Physical verification of the project on 13 March 2019 revealed the project was incomplete due to lack of funding. It is not clear why the monitoring and evaluation committee failed to advice the Project Management Committee to seek approval of the NGCDF before embarking on additional works. In the circumstances the public funds may not have been effectively utilized.

3. Non – Acknowledgement of Bursary

An expenditure of Kshs.15,696,000 was incurred during the year under review on bursary disbursements to Secondary and Tertiary Institutions. However, only acknowledgement letters for funds amounting to Kshs.8,768,080 or 56% of the disbursements from beneficiary institutions were made available for audit verifications leaving a balance of Kshs.6,927,920 unconfirmed.

In the absence of acknowledgements, it has not been possible to confirm the bursaries reached the intended beneficiaries.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section 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.

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 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 to sustain 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 National Government Constituencies Development Fund – Eldama Ravine Constituency 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 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 the National

Government Constituencies Development Fund – Eldama Ravine Constituency 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 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

26 August 2019