

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – ENDEBESS 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 – Endebess Constituency set out on pages 1 to 24, 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 amount 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 – Endebess 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. Remittance of Statutory Deductions in Time

The Fund failed to remit the statutory deductions totalling to Kshs.1,100,911 to Kenya Revenue Authority (KRA), National Hospital Insurance Fund (NHIF) and National Social Security Fund (NSSF) during the year under review as detailed below:

Cheque No.	Date	Payee	Amount Kshs.
3759	1.2.18	Comm. Dom. Tax	5,074
3760	„	Comm. Dom Tax	2,943
3837	„	Comm. Dom Tax	84,750
3840	„	Comm. Dom Tax	296,424
3851	„	Comm. Dom. Tax	272,100
4995	„	Comm. Dom Tax	90,900
4996	„	Comm. Dom Tax	90,480
4996	„	Comm. Dom Tax	45,240
4997	„	Comm. Dom Tax	123,000
4998	„	Comm. Dom Tax	90,000
		Total	1,100,911

Failure to remit statutory deductions in stipulated time is likely to attract penalties and fines besides contravening the law.

2. Other Grants and transfers

2.1 Emergency Expenses

Included in other grants and transfers figure of Kshs.27,026,294 is Kshs.2,000,000 out of which Kshs.1,900,000 was incurred in respect of emergency expenses released to various schools to be spent on construction of toilets as detailed below:

PV No.	Date	Cheque No.	Payee	Amount Kshs.
075	10.5.2018	3893	Kayos Primary School	100,000
075	10.5.2018	3874	Cheptikit Primary School	100,000
075	10.5.2018	3875	Kapkures Primary School	200,000
075	10.5.2018	3896	Cheberem Primary School	100,000
075	10.5.2018	3897	Suam Primary School	150,000
075	10.5.2018	3898	Kamaroko Primary School	100,000
075	10.5.2018	3899	Kitinda Primary School	100,000
075	10.5.2018	3900	Imbuye Primary School	100,000
075	10.5.2018	4001	Chepkwirot Primary School	100,000
075	10.5.2018	4002	Rwanda Primary School	200,000
075	10.5.2018	4003	Sabwani Primary School	100,000
075	10.5.2018	4004	Cheptantan Primary School	100,000
075	10.5.2018	4006	Titimet Secondary School	150,000
075	10.5.2018	4006	Sabwani Boys Secondary	100,000
075	10.5.2018	4007	St. Lilians Small Home Primary	100,000
075	10.5.2018	4008	Matumbei Secondary	100,000
Total				1,900,000

However, the expenses did not qualify to be emergency as per the requirements of Section 8 (3) of the National Government Constituency Development Fund Act, 2015. Further, there were no supporting documents provided to confirm that the institutions requested for the assistance and whether the same was included in the budget for the year under review.

2.2 Bursary Expenses- Secondary Schools

Under note 7 to the financial statements, bursary to secondary school figure of Kshs.10,316,000 differs with the figure of individual vouchers availed for audit verification totalling Kshs.10,294,000 as detailed below, resulting into non-reconciled variance of Kshs.22,000:

PV No.	Payee	Date	Amount Kshs.
36	Endebess CDF	1/3/2018	500,000
92	Endebess CDF	4/6/2018	9,475,000

93	Endebess CDF	25/6/2018	68,000
94	Endebess CDF	25/6/2018	251,000
		Total	10,294,000

2.3 Unapproved Distribution of Bursary Funds

In the minutes of the meeting held on 11 May 2018, the Fund resolved to allocate bursaries at the following rates per beneficiary; National Schools Kshs.10,000, Extra County and County Schools Kshs.5,000, Colleges and TTC Kshs.6,000, Polytechnics/KMTCs Kshs.7,000 and Universities Kshs.10,000. However, an audit verification procedure performed on the records for bursary awards revealed that the set basis was not followed in some cases as some beneficiaries received more than the approved rate as indicated below:

Name	Institution	Cheque No	Approved Amount Kshs.	Actual Amount Kshs.	Excess Amount Kshs.
Timothy Machoka	Kabuyefwe Boys Secondary	4830	5,000	25,000	20,000
Kibet Meshack	Eldoret University	4025	10,000	20,000	10,000
Simiyu Wafula	Kenya Methodist University	4026	10,000	40,000	30,000
Sabila Daniel	Eldoret College of Professional Studies	4027	7,000	40,000	33,000
Edwin Cheboret	Eldoret College of Professional Studies	4028	7,000	15,000	8,000
Jeremia Kimtai	Kapenguria Boys Secondary	4028	10,000	15,000	5,000
Sarah Cherop	Laikipia University	4029	10,000	15,000	5,000
Vincent Lwolei	KMTC Homabay	4573	7,000	20,000	13,000
Chrstine Cheruto	Sensei Institute	4581	7,000	40,000	33,000
Dorcas N.	Kisii University	4590	10,000	20,000	10,000
Irine Chepkwemoi	Eldoret University	4593	10,000	20,000	10,000
Lisa Uside	Catholic University	4595	10,000	20,000	10,000
	Total		290,000	290,000	187,000

Failure to follow the set guidelines is likely to lead to unequal distribution of bursaries to the intended beneficiaries.

In the circumstances, it was not possible to ascertain probity of other grants and other payments of Kshs.187,000 incurred during the year under review.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Endebess 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 Emphasis of Matter 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 procedures performed, except for the matter described 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. Budget

1.1 Late Submission of the Budget Proposals

The CDFC submitted budget (project proposal) for the year under review for inclusion to the annual government budget late in January 2018 instead of February 2017 as required. Further, the approval for the project proposal of Kshs.86,310,344 was done on bids thereafter of which contravenes Section 28 of the National Government Constituencies Development Fund Act, 2015.

1.2 Late Remittance of Funds from the Board

The verification of Project GFS Code-list (list of approved projects) showed that out of project proposal with estimated cost of Kshs.86,310,344 for the year under review, the Board approved only Kshs.5,500,000 on 30 January 2018 and released the same on 5 March 2018 and next tranche of Kshs.81,310,345 was approved on 20 April 2018 but only Kshs.37,905,172 was disbursed from the Board and received on 19 April 2018. The Fund operation was thus subjected to inconsistent flow of funds.

1.3 Budget Performance

Scrutiny of the comparison of the budget against actual expenditure for the year under review revealed that the following differences;

Appropriation

Receipt/Expense	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %

Receipts						
Transfers from CDF Board	86,810,345	46,198,498	133,008,843	78,224,360	54,784,483	58.8%
Total	86,810,345	46,198,498	133,008,843	78,224,360	54,784,483	58.8%
Payments						
Compensation of Employees	1,050,000	2,275,158	3,325,158	2,427,766	897,392	73.0%
Use of Goods and Services	8,762,930	3,839,411	12,602,341	5,417,651	7,184,690	43.0%
Transfers to Other Government Units	44,820,000	21,278,053	66,098,053	26,950,000	39,148,053	40.8%
Other Grants and Transfers	26,399,380	5,805,876	32,205,256	27,026,294	5,178,962	83.9%
Acquisition of Assets	1,101,008	13,000,000	14,101,008	12,100,000	2,001,008	85.8%
Other Payments	4,677,027	0	4,677,027	0	4,677,027	
Total	86,810,345	46,198,498	133,008,843	73,921,711	59,087,132	55.6%

The budget underutilisation is likely to affect service delivery to the constituents.

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 matter described in the Report On Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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 for Conclusion

IT Internal controls

The Fund did not have the Information Technology Strategic Policy nor strategic plan, active IT steering committee either at the constituency level or at the board level, formally approved IT Security policy to ensure data confidentiality. In addition, documented and approved processes to manage upgrades, formally documented and approved process to manage upgrades, environmental controls such as fire suppression systems, fire extinguishers and air conditioning systems were also not in place. However, the Fund manager is trained on IT in the Constituency and such training has not been extended to other staff members.

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 such 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to sustain its services and disclosing as applicable matters related to sustainability of services. 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.

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.

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 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's 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

28 June 2019