

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – GALOLE CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Galole Constituency set out on pages 1 to 19, which comprise the statement of financial assets and liabilities as at 30 June 2018 and the statement of receipts and payments, statement of cash flows and 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 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 – Galole Constituency as at 30 June 2018 and its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

### Basis for Qualified Opinion

#### 1. Use of Goods and Services

##### 1.1 Irregular Expenditure

Included in use of goods and services of Kshs.8,884,178 during the year under review is Kshs.6,435,980 and Kshs.524,100 on committee expenses and domestic travel and subsistence allowances respectively as reflected under note 3. However, audit review of the expenditure and other supporting documents revealed that an amount of Kshs.2,206,560 had the following anomalies: -

- i). Some of the expenditure for field allowances were not supported with monitoring and evaluation reports as evidence of field work carried out.
- ii). Some payments were supported with monitoring and evaluation reports for projects not implemented during the year under review.
- iii). There were unsupported and exaggerated travel and subsistence claims.

iv). There were committee expenses paid from allocations for other projects

## **1.2 Un-accounted for Fuel Expenditure**

Included in the use of goods and services of Kshs.8,884,178 is an expenditure on supply of fuel of Kshs1,000,000. However, a review of the supporting documents such as detail orders and copies of work tickets indicated that five hundred and fifteen (515) litres of diesel ordered were supplied to private vehicles. It was further noted that all the detail orders supporting the fuel drawn were issued during the 2016/2017 financial year yet there were no pending bills disclosed at beginning of the financial year under review.

Consequently, the probity of the expenditure for Kshs.3,206,560 for the year ended 30 June 2018 could not be confirmed.

## **2. Other Grants and Other Payments**

The other grants and transfers of Kshs.28,043,260 as reflected under note 5 includes bursary to secondary schools of Kshs.24,307,260 which in turn includes Kshs.12,285,000 which however did not have acknowledgement letters from the beneficiary institutions for the benefit of the needy student.

In the circumstances, the probity of the expenditure of Kshs.12,285,000 as at 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 – Galole 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, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

#### **1. Budget and Budgetary Control**

The expenditure records and the approved code list for the year under review reflects the analysis below:-

Item	Approved Budget Kshs.	AIEs Received and Opening Bank Balance Kshs.	Actual Expenditure Kshs.	Under-expenditure Kshs.	Over-expenditure Kshs.
Compensation of employees	2,198,400	2,198,400	2,192,586	5,814	
Use of goods and services	8,710,764	7,686,636	8,884,178		1,197,542
Transfer to other government units	37,357,328	32,200,000	12,835,898	19,364,102	
Other grants and transfers	41,943,965	36,746,120	28,043,260	8,702,860	
Other: (Strategic plan & ICT Hub)	8,677,027	8,677,027	0	8,677,027	
<b>Total</b>	<b>98,887,484</b>	<b>87,508,183</b>	<b>51,955,922</b>	<b>35,552,261</b>	<b>1,197,542</b>

As indicated above, the Fund had an under-expenditure of Kshs.35,552,261 on four major components of the approved budget this is attributed to late disbursement of funds by the National Government Constituencies Development Fund Board. Further, the Fund incurred over-expenditure on use of goods and services amounting to Kshs.1,197,542 without the approval of the Board as required.

It was further noted that out of the approved budget on use of goods and services of Kshs.8,710,764 the approved committee expenses was Kshs.2,526,759 while the actual expenditure was Kshs.6,435,980 resulting to an over-expenditure of Kshs.3,909,221 thus diverting funds meant for other office administrative expenses to committee expenses.

Consequently, the Fund is in breach of the law by spending without approval of the Board.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, 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. Acquisition of Assets

##### 1.1 Failure to Put into Proper Use of the Constituency Vehicle and Other Machinery

Physical verification of assets owned by the Fund revealed that three tractors registration Nos. GK A616V, GK A617V, GK A618V and a vehicle GK A608T all acquired at an estimated cost of Kshs.16,000,000 were parked at the Fund's office compound and were not in good working condition. There was also no indication that they were being put in use to deliver the intended services. However, no evidence was provided in support of any measures taken to either repair them or dispose them to avoid further deterioration in their value.

Consequently, the Fund is in breach of Section 72 (1) (b) of the Public Finance Management Act, 2012 which provides that the accounting officer for a national government entity shall manage assets of the entity in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets.

## **1.2 Failure to Maintain Assets Register**

Annex 2 a summary of fixed assets register attached to the financial statements disclosed the value of the fixed assets as Kshs.28,340,000. However, the Fund did not maintain a permanent fixed assets register to record the assets maintained contrary to Section 136 (i) of the Public Finance Management (National Government) Regulation, 2015. Further, it was noted that no valuation was done for the assets. In addition, physical verification of the assets held by Fund revealed that seven office chairs acquired at a cost of Kshs.66,000 were not availed for audit verification and could not be accounted for.

In the absence of the fixed assets register, it was not possible to ascertain the validity completeness and accuracy of the fixed assets balance of Kshs.28,340,000 as at 30 June 2018.

## **2. Compensation of Employees**

The statement of receipts and payments reflects expenditure on compensation of employees of Kshs.2,192,586. A review of the monthly employee payment schedules revealed that the employees' gross salary did not include all the applicable allowances as per guidelines provided in National Government Constituencies Development Fund Board Circular Ref. BOARD/CIRCULARS/VOL.I. I/166 of 24 June 2013. As a result, the employees were underpaid by Kshs.739,286.

Further, according to the Board circular, a driver is entitled to a basic salary of Kshs.16,692 at entry level and other applicable allowances. However, a review of the personnel files revealed a case of a driver who was paid Kshs.27,000 as basic salary vide appointment letter Ref:CDF/GLE/DOC/ (01) 2018 and hence overpaid by Kshs.10,308.

In addition, three employees were paid a monthly gross salary of Kshs.7,500 which is below the minimum wage level of Kshs.11,926 applicable to their category of engagement. Three other employees engaged in 2013 whose three-year contracts expired in 2016 were not paid their gratuity as required.

In view of the above the Fund did not comply with the NGCDF Board Circular Ref. BOARD/CIRCULARS/VOL.I. I/166 and the Regulation of Wages (General) (Amendment) Order, 2017.

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**

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 the 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 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 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 Fund's 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 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 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**

**08 August 2019**