

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND- GANZE 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- Ganze Constituency set out on pages 7 to 32 which comprise the statement of financial 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 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- Ganze 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**

#### **1.0 Outstanding Imprest**

As reported previously, note 11 to the financial statements for the year ended 30 June 2018 reflects outstanding imprests of Kshs.3,129,360. The audit revealed that the imprests have been outstanding for more than four (4) years contrary Section 93 (5) of Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Although the management has explained that these imprests have since been surrendered, documentary evidence to that effect has not been provided for audit verification.

Further, as previously reported, the statement of assets as at 30 June 2016 reflects opening outstanding imprests balance of Kshs.3,129,360 while the audited balance for the year 2014/2015 indicated a sum of Kshs.3,270,500, resulting to a variance of Kshs.141,140 which has not been reconciled nor explained.

Consequently, the regularity and completeness of outstanding imprest amounting to Kshs.3,129,360 as at 30 June 2018 could not be confirmed.

## **2.0 Cash and bank balance**

Note 10A to the financial statements for the year ended 30 June 2018 reflects a bank balance of Kshs.37,671,347. However, the bank reconciliation statement as at 30 June 2018 reflects stale cheques amounting to Kshs.57,249 that had not been written back as at 30 June 2018. Further, cash in hand of Kshs.93,562 has remained unbanked from the previous year. The management has indicated that Kshs.74,000 had been banked leaving unbanked balance of Kshs.19,562.

In the circumstances, the accuracy and completeness of cash balance of Kshs.93,562 and bank balance of Kshs.37,671,347 as at 30 June 2018 could not be confirmed.

## **3.0 Acquisition of Assets**

### **3.1 Construction of Buildings**

As previously reported, Note 8 to the financial statements for the year ended 30 June 2018 reflects comparative acquisition of assets balance of Kshs.19,197,830 which includes construction of buildings amounting to Kshs.10,000,000. This amount was for construction of the Ganze Constituency Fund office building. However, the audit revealed that there were major changes of the design from the original plan, extension of one wing and changes of the design on windows which was done by works officer and the contractor without formal instructions on the drawing and approval from the Board. The management has not explained why the design was changed and the bill of quantities for the changed design were also not availed for audit. Further, it has not been possible to ascertain if value for money has been obtained by the citizens of Ganze.

In the circumstance, the value for money of the construction of building amounting to Kshs.10,000,000 for the year ended 30 June 2018 could not be confirmed.

### **3.2 Purchase of Vehicles and Other Transport Equipment**

As previously reported, Note 8 to the financial statements for the year ended 30 June 2018 reflects comparative purchase of vehicles and other transport equipment amounting to Kshs.8,599,350. However, this figure includes an amount of Kshs.55,000 paid for fitting the vehicle with a car tracking system that could not be verified. Further, the ownership documents of Fund's motor vehicle registration GK 036 of Kshs.8,462,382 and Tractors with registration KAV 583K of Kshs.2,270,000, KAV 579K of Kshs.2,270,000 and KAV 578K of Kshs.2,270,000 were not availed for audit verification.

In the circumstance, the ownership of the motor vehicle and the tractors all valued at Kshs.15,272,382 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- Ganze 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 matter 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 Receipts Budget

The fund's revenue budget for the year under review was Kshs.165,144,675 against a total actual receipts of Kshs.74,892,918 resulting to budget under funding of Kshs.90,251,757 or 54.6% as summarized below:

Item	Budgeted amount Kshs.	Actual Receipts Kshs.	Under Collection Kshs.	Under Collection (%)
Transfer from CDF Board	165,144,675	74,842,918	90,301,757	52.2%
Other receipts	-	50,000	(50,000)	-
<b>Total</b>	<b>165,144,675</b>	<b>74,892,918</b>	<b>90,251,757</b>	<b>54.6%</b>

The under collection of Kshs.90,251,757 representing 54.6% 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.34,182,934. The underutilization of funds may have impacted negatively on the delivery of goods and services to the citizens of Ganze. This may be an indication of over-budgeting by the National Government Constituencies Development Fund - Ganze Constituency.

#### 1.2 Expenditure Analysis

The fund's overall budget for the year under review was Kshs.176,523,985.54 against total actual 40,709,984 or 23% resulting to budget under absorption of Kshs.135,814,002 or 77% as summarized below:

Item	Budgeted Amount Kshs.	Actual Expenditure Kshs.	Under Absorption Kshs.	Under Absorption (%)
Compensation of employees	4,444,538	2,145,102	2,299,436	51.7%

Use of goods and services	7,797,262	6,079,351	1,717,911	22%
Transfers to Other Government Units	62,125,714	3,800,000	58,325,714	93.8%
Other grants and transfers	68,623,108	23,215,806	45,407,302	66%
Acquisition of Assets	8,800,000	5,469,725	3,330,275	37.8%
Other Payments	13,354,054	0	13,354,054	100%
Un approved projects	11,379,310	0	11,379,310	100%
<b>Total</b>	<b>176,523,986</b>	<b>40,709,984</b>	<b>135,814,002</b>	<b>77</b>

The under absorption of Kshs.135,814,002 representing 77% 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 Ganze or may be an indication of over-budgeting by the National Government Constituencies Development Fund- Ganze Constituency.

### 1.3 Project Implementation Status

According to project implementation status report as at 30 June 2018, thirteen (13) projects approved with a total budget of Kshs.32,348,835 had not been started as at 30 June 2018 as summarized below:

No	Project Name	Activity	Amount Kshs.	Year
1	Mwenge Pry Sch	Construction of two classrooms to completion.	3,000,000.00	2017/18
2	Palakumi Pry Sch	Face-lifting: Renovation of 8 classrooms – Roofing and painting.	3,000,000.00	2017/18
3	Ganze Pry Sch	Face-lifting: Renovation of 8 classrooms – Roofing and painting.	3,000,000.00	2017/18
4	Dodosa Pry School	Purchase of 50 desks	250,000.00	2017/18
5	Kahingoni Pry School	Purchase of 50 desks	250,000.00	2017/18
6	Silala Pry School	Purchase of 50 desks	250,000.00	2017/18
7	Mwapula Pry School	Purchase of 100 desks	500,000.00	2017/18
8	Mwangea Girls' Sec School	Completion of twin dormitory roofing, plastering, painting, doors and windows.	5,598,835.00	2017/18
9	Vitengeni Baptist Sec School	Construction of dormitory block capacity 130 students.	6,000,000.00	2017/18
10	Ganze Boys' Sec School	Construction of a laboratory block to completion.	6,000,000.00	2017/18
11	Jila Secondary School	Completion of twin dormitory-Plastering, painting,	4,000,000.00	2017/18
12	Petanguo Sec. School	Purchase of 50 lockers	250,000.00	2017/18
13	Bandari Sec. School	Purchase of 50 lockers	250,000.00	2017/18
	<b>Total</b>		<b>32,348,835.00</b>	

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 Ganze Constituency and the intended purpose of the projects may not be realized. Further, the project status report reflected fifty-seven (57) projects with a total budget of Kshs.81,255,650 were ongoing as at 30 June 2018. Some projects were expected to be completed in 30 June 2016, others 30 June 2017 and 30 December 2017. However, as at the time of our audit in the month of February 2019, the projects had not been completed. The delay in completion of the projects affects goods and service delivery to the residents of Ganze Constituency and the intended purpose of the projects may not be realized.

#### 1.4 Project Inspection

Audit inspection of eleven (11) projects with total allocation of Kshs.4,479,412 during the month of February 2019 indicated the following state of affairs of the specific projects:

No.	Project Title	Project Activities / Detailed specifications	Verification Date	Project cost Kshs.	Observations
	<b>Primary Schools</b>				
1	Proposed Construction of 2 classroom at Mugumoni primary school	Construction of 2 classroom (substructure and superstructure)	15/2/2019	1,800,000.00	All project activities completed. Facility in use
2	Proposed Renovation (Re-Roofing) of 3 Classrooms at Jaribuni Primary School, Jaribuni Ward	Renovation (Re-Roofing) of 3 Classrooms	15/2/2019	500,000.00	All project activities completed. Facility in use
3	Proposed Construction of 1 classroom at Vitsapuni primary school	Construction of 1 classroom to completion (Substructure and superstructure)	15/2/2019	1,000,000.00	All project activities completed. Facility in use
4	Proposed Renovation (Re-Roofing) of Administration block at Palakumi Primary School	Renovation (Re-Roofing) of Administration block	15/2/2019	500,000.00	All project activities completed. Facility in use
5	Purchase and plating of seedlings		19/2/2019	97,058.82	Trees purchased and planted. Most them had dried up due to dry season
6	Purchase and plating of seedlings		19/2/2019	97,058.82	Trees purchased and planted. Most them had dried up due to dry season
7	Purchase and issue of seedlings to Sokoke Primary School		19/2/2019	97,058.82	Trees purchased and planted. Most them had dried up due to dry season
8	Purchase and issue of seedlings to Migujuni Primary Sch		19/2/2019	97,058.82	Trees purchased and planted. Most them had dried up due to dry season

No.	Project Title	Project Activities / Detailed specifications	Verification Date	Project cost Kshs.	Observations
9	Purchase and issue of seedlings to Jila Primary Sch		19/2/2019	97,058.82	Trees purchased and planted. Most them had dried up due to dry season
10	Purchase and issue of seedlings to Mabirikani Primary Sch.		19/2/2019	97,058.82	Trees purchased and planted. Most them had dried up due to dry season
11	Purchase and issue of seedlings to Mariani Pry School		19/2/2019	97,058.82	Trees purchased and planted. Most them had dried up due to dry season
	<b>Total</b>			<b>4,479,411.74</b>	

The above observations are indication of poor project supervision with no value for money for public funds as a result of lack of tender care on the planted trees.

## 2.0. Project Management Committee Bank Balances

### 2.1 Unutilized Funds

Annex 5 to the financial statements for the year ended 30 June 2018 reflects project management committee bank balances amounting to Kshs.1,990,470 out of which funds totaling to Kshs.427,871 were lying idle in the bank accounts without being used and were not returned to the constituency account contrary to NGCDF Act Section 12(8) which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account. The details of the idle funds are summarized below:

No	Project Management Committee	Bank	Account number	Amount in Kshs.
1	Katandewa Primary School	National Bank	1224068227500	149,206
2	Sosoni Secondary School	National Bank	1281101248600	1,001
3	Chinyume Primary School	National Bank	12241229706200	1,000
4	Mugumoni Primary School	KCB	1226649785	1,084
5	Kagombani Primary School	National Bank	1224115720000	20,224
6	Marere Primary School	National Bank	1224115757000	18,963
7	Nasoro Primary School	National Bank	1224129760600	5,090
8	Ambassador Kithi Memorial Sec. School	National Bank	1285068270800	103,102
9	Shakahola Secondary School	National Bank	1285129759400	125,428
10	Darajani Primary School	National Bank	1224115717800	965
11	St. Peter's Primary School	National Bank	1224115791300	1,390
12	Maya Primary School	National Bank	1221291757100	418.00

	<b>Total</b>			<b>427,871</b>
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The idle funds held by the project management committees in the bank accounts are denying the Ganze residents provision of goods and service delivery. This is an indication of lack of proper planning and prioritizing citizen's needs in the budget making process mechanism.

## 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 Report 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 for Conclusion

#### 1.0 Unremitted Taxes

As previously reported, Note 8 to the financial statements for the year ended 30 June 2018 reflects comparative construction of buildings amounting to Kshs.10,000,000. However, the management did not withhold tax on the payments made to the contractor contrary to Section 42A (4-C) of the Tax Procedures Act, 2015. As a result, the management did not comply with the income tax requirements and possible fines and penalties accruing due to non-compliance was not provided for in these financial statements.

#### 2.0 Pending Bills Accounts Payables

Note 15.1 to the financial statements for the year ended 30 June 2018 reflects pending accounts payable of Kshs.2,530,275. However, supporting schedules and respective invoices were not availed for audit verification.

In the circumstances, the propriety, accuracy and completeness of pending bills accounts payables amounting to Kshs.2,530,275 for the year ended 30 June 2018 could not be confirmed.

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 fund's ability 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 Fund or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the fund's 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 fund's 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.

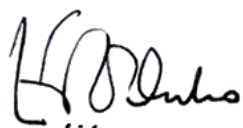
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 National Government Constituencies Development Fund – Ganze 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 – Ganze 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 – Ganze 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**

**6 May 2019**