

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – GARSEN 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 – Garsen Constituency set out on pages 7 to 24, 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 – Garsen Constituency as at 30 June 2018 and 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 Constituencies Development Fund Act, 2015.

### Basis for Qualified Opinion

#### 1. Use of Goods and Services

The use of goods and services reflects Kshs.3,291,810 which includes Kshs.1,190,000 and Kshs.620,000 on other committee expenses and committee expenses respectively as reflected under note 3 to the financial statements. Review of expenditure records however revealed that payments amounting to Kshs.1,055,000 spent on committee expenses were made without relevant supporting documents for monitoring and evaluation activities and Constituency Development Fund Committee meetings. Payment schedules attached did not indicate dates when the alleged meetings took place and minutes to support the expenditure were not provided for audit review. The field allowances paid were not also supported with monitoring and evaluation reports to confirm the exercise was executed.

In view of foregoing, it was not possible to ascertain the probity of the expenditure for Kshs.1,055,000 as at 30 June 2018.

#### 2. Transfer to Other Government Units

The transfer to other Government units reflects Kshs.11,297,788 as per note 4 to the financial statements, which includes payments totaling to Kshs.5,400,00 for construction of three classrooms and a toilet block at Kipao Secondary School. However, review of payment documents and project files revealed the following anomalies:

- i). Advertisement for the construction works was made locally instead of inviting tenders through advertisement in at least two daily newspapers of national circulation, or dedicated Government tenders' portal or in the Fund's website as required under Section 96 (2) of the Public Procurement and Asset Disposal Act, 2015.
- ii). Project files provided for audit review did not contain key tender documents such as signed opening and evaluation minutes, inspection and acceptance reports, handing over report and certificate of practical completions as required.
- iii). There were no contract agreements signed between the contractors and the Projects Management Committees as required by Section 135 (2) of the Public Procurement and Asset Disposal Act, 2015.
- iv). Bank statements of the Project Management Committee accounts, project work plan and returns on how the administration expenses of all projects were utilized were not provided for audit review as required by Section 9 and 10 of National Government Constituencies Development Fund Act, 2015.
- v). Physical verification of projects carried out on 15 February 2019 revealed that construction of three classrooms and six toilets at Kipao Secondary School was complete and in use. However, the project was not labeled as at the time of audit verification.

In view of the foregoing, the probity of Kshs.5,400,000 could not be confirmed.

### **3. Other Grants and Other Payment**

The other grants and other payments figure of Kshs.26,849,344 includes bursary amounting to Kshs.21,926,506. However, audit review of the expenditure revealed that bursaries amounting to Kshs.2,739,000 had no acknowledgement receipts or letters from the purported beneficiary institutions. It was further noted that bursary applications register was not maintained to record names of applicants, their identification details and location of domicile.

In the circumstances, it was not possible to ascertain to the probity of Kshs.2,739,000 as at 30 June 2018.

### **4. Outstanding Imprest**

The outstanding imprest reflects a balance of Kshs.2,223,131 as at 30 June 2018. A review of the imprest records revealed that the amount had been outstanding for more than one year and nine months. The outstanding balance comprised of twelve (12) temporary imprests issued to the former Fund Accounts Manager contrary to Section 93 (4) (b) of the Public Finance Management (National Government) Regulations, 2015 which provides that before issuing temporary imprests the accounting officer shall ensure that the applicant has no outstanding imprests.

Consequently, the financial assets balance of Kshs.2,240,950 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 – Garsen 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

#### 1.1 Budget Performance Analysis

The budget absorption during the year under review is analyzed below:

Item	Approved Budget Kshs	Actual Kshs	Variance Kshs
Receipts	0	43,405,172	54,884,351
<b>Expenditure</b>			
Compensation of employees	3,320,000	2,028,279	1,291,721
Use of goods and services	5,596,936	3,291,810	2,305,126
Transfer to other government units	42,598,276	11,297,788	31,300,488
Other grants and other transfers	46,754,311	26,849,344	19,904,967
<b>Total</b>	<b>98,269,523</b>	<b>43,467,221</b>	<b>54,802,302</b>

As indicated in the analysis above, the approved budget for the Fund was Kshs.98,269,523 out of which an amount of Kshs.79,868 was brought forward from 2016/2017 financial year. However, the amount received during the year was Kshs.43,405,172 and actual expenditure during the year was Kshs.43,467,221 resulting to under-expenditure of Kshs.62,049.

As at close of the financial year, the National Government Constituencies Development Fund Board had not released Kshs.54,784,482 which is part of the approved budget of Kshs.98,269,523. This led to non-implementation of all development programmes included in the approved budget.

Consequently, the constituents may not have obtained full benefits from the approved programmes.

## **2. Under-Payment of Staff Salary**

The compensation of employees reflects Kshs.2,028,279 during the year under review. However, a review of the of salary payment schedules indicated that the gross salary paid did not include all the applicable allowances as provided in the National Government Constituencies Development Fund Board Circular Ref. BOARD/CIRCULARS/VOL.I.I/166. It was further noted that commuter and hardship allowances were not included in the gross salary leading to under-payment of employees by Kshs.858,600.

In the circumstances. it was not possible to ascertain the probity of the expenditure for Kshs.2,028,279 as at 30 June 2018.

## **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 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.

### **1. Failure to Maintain Updated Asset Register**

Annex 4 to the financial statements on summary of fixed asset register indicate that cumulative cost of assets acquired by the Fund as at 30 June 2018 was Kshs.12,615,000. However, the asset register maintained was not updated as key asset details such as date of acquisition and cost at acquisition were not provided in the asset register which was last updated in 2016 contrary to Section 143 (1) of the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the absence of proper fixed asset register, it was not possible to ascertain the validity, completeness and accuracy of the fixed assets balance of Kshs.12,615,000 as at 30 June 2018.

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 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.

### **Weaknesses in Internal Controls**

All payments from the Fund are supposed to be approved by the Fund Account Manager and authorized by the Sub-County Accountant. However, audit examination of payment vouchers for committee expenses revealed that payment vouchers worth Kshs.1,105,000 were not authorized by the Sub-County Accountant.

Consequently, the authenticity of expenditure of Kshs.1,105,000 as at 30 June 2018 could not be confirmed.

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 noncompliance. 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**

**13 August 2019**