

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - IGEMBE SOUTH 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 - Igembe South Constituency set out on pages 10 to 38, which comprise the statement of assets and liabilities as at 30 June 2018, 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 - Igembe South 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 Government Constituencies Development Fund Act No, 2015.

### **Basis for Qualified Opinion**

#### **1.0 Cash and Cash Equivalent**

Note 10A to the financial statements reflects Kshs.3,374,005 in respect to bank balances as at 30 June 2018. However, the respective bank reconciliation statement reflected un-presented cheques totaling Kshs.3,298,551 out of which Kshs.561,132 had become stale as at the time of this audit in February 2019 but the same had not been replaced or reversed in the cash book thereby understating the cashbook balance by the same amount.

Further, bank charges totalling to Kshs.2,350 as at 30 June 2018 were not expensed under the use of goods and services component but remained as a reconciling item thereby understating the expenses by the same amount and overstating the cash book balance with the same amount.

In the circumstances, it has not been possible to ascertain the accuracy of the cash and cash equivalents balance of Kshs.3,374,005 reflected in the financial statements as at 30 June.

## 2.0 Variances between the year 2017/2018 Comparative Figures and Year 2016/2017 Audited Balances

The Financial statements for the year ended 30 June 2018 reflects Kshs.3,037,373 in respect to comparative opening balances of two (2) expenditure components while the audited 2016/2017 financial statements reflected Kshs.1,558,173 on the same components resulting to an unexplained variance of Kshs.1,479,200 as shown below:

Item	Financial Statement	2017/2018 Financial Statements Opening Balances (Kshs)	2016/2017 Financial Statements Audited Closing Balances (Kshs)	Variance (Kshs)
Other payments	Statement of receipts and payments	1,500,000	None	1,500,000
Compensation of employees	Note 4	1,537,373	1,558,173	(20,800)
<b>Total</b>		<b>3,037,373</b>	<b>1,558,173</b>	<b>1,479,200</b>

In the circumstances, the accuracy of the respective financial statements balances for the year ended 30 June 2018 could not be ascertained.

## 3.0 Bursaries

Note 7 to the financial statements for the year ended 30 June 2018 reflects Kshs.31,220,394 in respect to other grants and other payments which include Kshs.3,110,459 and Kshs.17,465,798 in respect to bursaries to secondary schools and tertiary institutions respectively both totaling to Kshs.20,576,257. However, only bursaries totaling to Kshs.5,907,996 (29%) were acknowledged by the respective beneficiaries through letters of acknowledgement or issue of official receipts leaving a balance of Kshs.14,668,261 (71%) un-acknowledged by the beneficiary institutions.

Further, Kshs.1,420,786 was awarded to ninety- two (92) bursary applicants in various schools and institutions who did not have admission numbers creating doubts if students were genuine.

In the circumstances, the accuracy, validity and value for money of the Kshs.14,668,261 and Kshs.1,420,786 both totaling to Kshs.16,089,047 in respect to bursaries to secondary schools and tertiary institution for the year ended 30 June 2018 could not be ascertained.

## 4.0 Use of Goods and Services

Note 5 to the financial statements reflects Kshs.5,395,369 in respect to use of goods and services which includes Kshs.23,129 in respect to bank service commission and charges. However, the Kshs.23,129 did not include the Kshs.2,350 appearing as a reconciling item in the bank reconciliation statements as at 30 June 2018.

In the circumstances, it has not been possible to ascertain the accuracy of the Kshs.23,129 in respect to bank service commission and charges for the year ended 30 June 2018.

## 5.0 Non Adherence to Projects Bills of Quantities.

Note 6 to the financial statements reflects Kshs.21,500,000 in respect to transfers to other government entities comprising of Kshs.13,600,000 and Kshs.7,900,000 in respect to transfer to primary and secondary schools' projects respectively. Included in Kshs.13,500,000 is Kshs.1,300,000 disbursed to two primary schools whose projects' physical verification carried out in the month of January 2019 revealed that though the projects are said to have been complete, the work done was at variance with the Bill of Quantities (BQ) as detailed below;

Name of school	Amount Disbursed (Kshs)	Work as per BQ	Work done
Karumaru primary school	500,000	13 stone walled pit latrines with pre-painted roofing sheets of gauge 30	10 pit latrines of corrugated iron sheet of gauge 32
Ura River primary school	800,000	Window panes, flooring, plastering, ceiling and painting.	Flooring and plastering
<b>Totals</b>	<b>1,300,000</b>	-	-

In the circumstances, the accuracy, propriety and value for money for the Kshs.1,300,000 transferred to the two primary schools for the year ended 30 June 2018 could not be ascertained.

## 6.0 Project Management Committee (PMC) Bank Balances

Note 6 and 7 to the financial statements reflects transfers to other Government entities and other grants and other payments of Kshs.21,500,000 and Kshs.31,220,394 respectively both totaling to Kshs.52,720,394 which was earmarked to implement projects in various sectors within the constituency during the year under review. However, included in Kshs.52,720,394 is Kshs.4,928,093 in respect to forty - eight (48) projects management committee (PMC) bank balances as analyzed at annex 5 to the financial statements and whose bank reconciliations, cash books and bank statements were not provided for audit review.

In the circumstances, the accuracy of PMC bank balances of Kshs.4,928,093 as at 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund – Igembe South 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

#### 1.0 Budgetary Control and Performance

##### 1.1 Receipts Analysis

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2018 reflects budgeted receipts and actual receipts of Kshs.91,689,655 and Kshs.64,415,516 respectively resulting in a receipts budget shortfall of Kshs.27,274,139 or 30%.

Overall, the Fund failed to actualize its receipt budget by Kshs.27,274,139 an indication that some programmes and activities that had been planned were not implemented. There is need therefore for Constituency Development Fund management to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the residents of Igembe South Constituency.

##### 1.2 Expenditure Analysis

The summary statement of appropriation: recurrent and development combined reflects budgeted payments of Kshs.91,689,655 for the year ended 30 June 2018 while the actual payments are Kshs.61,729,054 resulting to an under expenditure of Kshs.30,471,934 in four (4) items and an over expenditure of Kshs.511,333 in two items as shown below;

Items	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	Over (Kshs)	%
Compensation of Employee	1,801,958	1,813,291		11,333	1%
Use of goods and services	9,535,110	5,395,369	4,139,741	-	43%
Transfer to other Government entities	42,898,275	21,500,000	21,398,275	-	50%
Other Grant and Transfers	32,777,285	31,220,394	1,556,891	-	5%
Other Payments	4,677,027	1,300,000	3,377,027	-	72%
Acquisition of Assets	0	500,000		500,000	100%
<b>Total</b>	<b>91,689,655</b>	<b>61,729,054</b>	<b>30,471,934</b>	<b>511,333</b>	

The under expenditure of Kshs.30,471,934 or 33% translates to equivalent services expected but not delivered to the residents of Igembe South Constituency. Further, the Fund overspent its budget on two items by Kshs.511,333 without approval in form of a supplementary budget contrary to Section 43(2) of Public Finance Management Act (County Regulations), 2015 which states that County government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved

annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund, or supplementary estimates.

There is need therefore for the management to relook at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the residents of Igembe South Constituency.

## 2.0 Project Implementation Status

The project implementation status made available for audit review shows that eighty (80) projects worth Kshs.56,539,096 were budgeted to be implemented during the year under review. However only twenty five (25) projects valued at Kshs.9,786,207 had been completed, forty (40) projects worth Kshs.31,450,000 were ongoing and fifteen (15) projects worth Kshs.15,302,889 were not started as at 30 June 2018 as follows;

Sector	Project Status	Amount Allocated Kshs	No. of projects	Amount Disbursed Kshs
<b>Education</b>	Completed	6,850,000.	11	6,850,000
	Ongoing	26,450,000.	34	26,450,000
	Not started	9,298,276	7	0
	<b>Sub Total</b>	<b>42,598,276</b>	<b>52</b>	<b>33,300,000</b>
<b>Security</b>	Completed	900,000	2	900,000
	Ongoing	1,200,000	4	1,200,000
	Not started	1,100,000	2	0
	<b>Sub Total</b>	<b>3,200,000</b>	<b>8</b>	<b>2,100,000</b>
<b>Environment</b>	Completed	1,736,207	11	1,736,207
	Ongoing	0	0	0
	Not started	227,586.	5	0
	<b>Sub Total</b>	<b>1,963,793.</b>	<b>16</b>	<b>1,736,207</b>
<b>Other Payment</b>	Completed	300,000.	1	300,000
	Ongoing	3,800,000.	2	3,800,000
	Not started	4,677,027.	1	0
	<b>Sub Total</b>	<b>8,777,027.</b>	<b>4</b>	<b>4,100,000</b>
	<b>Grand Total</b>	<b>56,539,096</b>	<b>80</b>	<b>41,236,207</b>

In view of the foregoing, the constituents did not get the expected services equivalent to the Kshs.31,450,000 ongoing and Kshs.15,302,889 not started projects all totalling to Kshs.46,752,889 for the year ended 30 June 2018. This is an indication of inappropriate project implementation mechanism. Therefore, there is need for the Constituency Development Fund management to review its project planning mechanism with a view to prioritizing those projects which will be implemented during the financial year resulting to higher impact in improving service delivery to the residents of Igembe South Constituency.

## 3.0 Progress on Follow up of Auditors Recommendations

The financial statements for the year under review at page 35 reflects a progress on follow up of Auditors recommendations showing that all the issues/observations raised in the Auditor-General's report have been resolved. However, there was no documentary evidence availed for audit review on how the issues have been resolved.

In the circumstances, the issues raised in the 2016/2017 Auditor-General's report may not have been resolved as at 30 June 2018 thereby defeating the whole purpose of including the progress report in the financial statements.

## 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 matters described in the Basis for Conclusion on Lawfulness and Effectiveness in use of Public resources section of my report, I confirm that, nothing 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 Unauthorized Payment of Airtime**

Note 5 to the financial statements for the year under review reflects Kshs.5,395,369 in respect to use of goods and services which includes Kshs.214,280 in respect to communication, supplies and services which further includes Kshs.105, 000 paid as airtime allowances to Constituency Development Fund Committee (CDFC) members in the months of January to June 2018. However, no documents were made available to show that the members were entitled to receive the payments contrary to Section 33 of National Government Constituency Development Regulations 2016 which states that the Cabinet Secretary shall, with the approval of the National Assembly Select Committee on National Government Constituencies Development Fund, issue guidelines on allowances payable to members of a constituency committee and other government officers involved in the management of the Fund.

In the circumstances, the Fund was in breach of the law.

#### **2.0 Presentation of the Financial Statements**

The Fund's financial statements for the year ended 30 June 2018 did not include a separate summary statement of appropriation for recurrent and development and a budget execution by programs and sub- programs. However, the Public Sector Accounting Standards Board (PSASB) stipulates that the financial statements for any National Government entity should include these statements/documents. In addition, pages 1 and 11 to 14 of the financial statements are repeated and hence misleading to the users of the financial statements.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the recommended format.

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 procedures performed, except for the matter described in the basis for qualified opinion 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.

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, 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 National Government Constituencies Development Fund - Igembe South Constituency'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 National Government Constituencies Development Fund - Igembe South 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 National Government Constituencies Development Fund - Igembe South Constituency'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 National Government Constituencies Development Fund - Igembe South Constituency's 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 with limited assurance as to 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 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 National Government Constituencies Development Fund - Igembe South Constituency's policies and procedures may deteriorate.

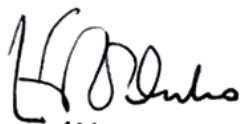
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:



- 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 - Igembe South Constituency's 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 - Igembe South Constituency to cease to continue 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 - Igembe South 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**

**18 April 2019**