

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Ikolomani Constituency set out on pages 7 to 26 which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and the 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund – Ikolomani Constituency as at 30 June, 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, 2015.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund – Ikolomani 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 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 Budget Performance

The National Government Constituencies Development Fund - Ikolomani Constituency had an approved budget of Kshs.103,094,776 for the financial year 2017/2018. During the same period, the Fund recorded expenditure of Kshs.74,841,525 or approximately 73% of the budget resulting in an under expenditure of Kshs.28,253,251 or 27% of the budget as detailed below:

Item	Approved Budget (Kshs)	Expenditure (Kshs)	Under Absorption (Kshs)	Under Absorption (%)
Compensation of Employees	2,400,000	2,210,250	189,750	8
Use of goods and services	8,806,035	6,831,275	1,974,760	22
Transfers to Other Government Units	60,873,783	52,100,000	8,773,783	14
Other grants and transfers	31,014,958	13,700,000	17,314,958	56
<b>Total</b>	<b>103,094,776</b>	<b>74,841,525</b>	<b>28,253,251</b>	<b>27</b>

Non-utilization of funds is an indication that services and approved programs were not delivered, and therefore the budget did not meet the intended objectives of improving delivery of goods and services to the residents of Ikolomani Constituency.

## 1.2 Project Implementation Status

The management did not provide project implementation status of the approved projects according to the approved budget for 2017/2018 as required. Instead, it was provided wef 2013/2014 thus not able to provide a clear picture on how the approved budget for 2017/2018 was utilised.

However, according to the projects implementation status report availed for audit review, the National Government Constituencies Development Fund - Ikolomani Constituency had planned to implement three hundred and eight (308) projects between the financial years 2013/14 and 2017/18 estimated to cost Kshs.477,197,636. As at 30 June 2018, two hundred and fourteen (214) project were complete, ninety-three (93) projects were on going while one (1) project budgeted for Kshs.2,000,000 had not started as detailed below:

Sector/ Status	Abandoned		Not Started		Ongoing		Completed	
	No	Value (Kshs)	No	Value (Kshs)	No	Value (Kshs)	No	Value (Kshs)
Administration	0	-	0	-	2	6,677,027	21	45,252,503
Education	0	-	1	2,000,000	84	121,900,000	142	218,872,126
Environment	0	-	0	-	0	-	9	1,580,000
Emergency	0	-	0	-	4	10,225,944	0	-

Sector/ Status	Abandoned		Not Started		Ongoing		Completed	
	No	Value (Kshs)	No	Value (Kshs)	No	Value (Kshs)	No	Value (Kshs)
Health	0	-	0	-	2	3,241,379	3	4,141,379
Roads	0	-	0	-	0	-	13	33,156,124
Security	0	-	0	-	0	-	11	7,350,000
Sports	0	-	0	-	0	-	7	7,211,962
Markets/Trade	0	-	0	-	1	-	2	3,064,468
Water	0	-	0	-	0	-	6	1,924,720
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>2,000,000</b>	<b>93</b>	<b>142,044,350</b>	<b>214</b>	<b>322,553,282</b>

Delay in implementation and completion of planned projects has effect of denying the people of Ikolomani constituency the benefits of these projects.

## 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 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

#### 1.0 Other Grants and Other Transfers

##### 1.1 Environmental Projects

Included in other grants and transfers figure of Kshs.13,700,000 is environmental projects amount of Kshs.200,000 paid to an Ikolomani youth group for supply and delivery of tree seedlings to various schools within the constituency. However, there was no approval from the line department of forestry sanctioning the tree planting activity. In addition, there was no acknowledgement from the beneficiary institutions/schools acknowledging receipt of the seedlings. Consequently, the propriety of Kshs.200,000 spent on environmental projects could not be confirmed.

##### 1.2 Construction of Lusui Police Post

The other grants and transfers amount of Kshs.13,700,000 also include emergency projects amount of Kshs.400,000 paid to a construction company for

installation of unit huts, pit latrine and fencing of a plot for Lusui Police Post. The project was indicated to be an emergency and it was to take one month for it to be completed. A site visits of the project in January 2019 revealed that although the project was complete, it had not been put to use and the fence had been vandalized. Consequently, the propriety of Kshs.400,000 incurred on the project could not be confirmed and the resident of Ikolomani Constituency did not get value for money spend on the project.

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.

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 continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the 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 scepticism 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 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 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**

**17 May 2019**