

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Kabete Constituency set out on pages 7 to 24, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flow and summary statement of appropriation-recurrent and development 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 effects 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 – Kabete 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June 2018 reflects cash and cash equivalents balance of Kshs.13,493,799 comprising bank balances as disclosed in Note 10A to the financial statements. However, the following unsatisfactory matters have been noted:

1.1 Stale Cheques

Bank reconciliation statement as at 30 June 2018 reflects unrepresented cheques totalling Kshs.3,661,916 which include stale cheques amounting to Kshs.130,792. However, no explanation was given for failure to reverse the stale cheques in the cash book.

1.2 Unconfirmed Bank Balance

Project Management Committee bank balance of Kshs.801,654 held at Jamii Bora Bank as of 30 June 2018 was not supported by a bank statement and certificate of the bank balance as at 30 June 2018.

1.3 Unaccounted for Cash Withdrawals

Examination of bank statements for the account maintained at Family Bank revealed that Kabete NG-CDF management withdrew cash from PMC Account – Kshs.1,169,070 and Main Account – Kshs.1,449,819 for various unsupported purposes and payments.

1.4 Irregular Payment of Suppliers through Cash

Examination of the payment schedules revealed that various suppliers were irregularly paid through cash a total of Kshs.976,820.

In view of the matters highlighted above, the accuracy and completeness of cash and cash equivalents balance of Kshs.13,493,799 as at 30 June 2018 could not be confirmed.

2. Net Financial Position

The statement of assets and liabilities as at 30 June 2018 reflects total financial assets of Kshs.13,493,799 and nil liabilities. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the net financial position of Kshs.13,493,799 has instead been presented as net liabilities.

3. Use of Goods and Services

The statement of receipts and payments reflects an expenditure of Kshs.3,669,632 in respect of use of goods and services in 2017/2018 financial year. However, documentary evidence in support of the expenditure amounting to Kshs.1,266,118 in respect of use of goods and services was not provided for audit review. Consequently, the validity and propriety of the expenditure of Kshs.1,266,118 could not be ascertained.

4. Compensation of Employees

Examination of Kabete NG-CDF payroll for 2017/2018 revealed that during the year under review there four members of staff. These employees were paid salaries and other personal allowances paid as part of salaries totalling Kshs.1,367,206 as reflected in the financial statements. However, payment vouchers relating to the same indicates payments totalling Kshs.727,428. The resulting difference of Kshs.639,778 between these records was not explained.

5. Fixed Assets Register

The summary of fixed assets register attached to the financial statements as Annex4 reflects assets with historical costs totalling Kshs. 2,957,467 as at 30 June 2018. This figure however differs with the fixed assets register balance of Kshs.3,442,363. The resulting variance of Kshs.484,896 was not explained or reconciled.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Kabete 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 and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no key audit matters to communicate in my report.

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Budget Performance

Kabete NG-CDF had budgeted to spend Kshs.105,320,629 but the actual expenditure was Kshs.37,042,574 or 35%, resulting in under expenditure of Kshs.68,278,055 or 65% of the total budget which was not explained satisfactorily. The under expenditure is an indication that some approved projects and programmes were not fully implemented and which in turn impacted negatively on efficient and effective delivery of services to the constituents.

2. Procurement of Goods, Services and Works

2.1 Documents Not Provided for Audit

Examination of payment vouchers, project files and other records revealed Kabete NG-CDF transferred an amount of Kshs.8,800,000 as grants to various primary and secondary schools for construction of facilities such as ablution blocks and dining hall. However, documents in support of the construction contracts were not provided for audit review. As a result, it was not possible to confirm that the rates submitted by the contractors were commensurate with quality and quantity of works awarded, and that the awards of these contracts were done using a system which is fair, equitable, transparent, competitive and cost effective as required under Article 227(1) of the Constitution.

2.2 Direct Procurement

Examination of contracts under use of goods and services revealed that the management procured directly from various contractors' services such as insurance – Kshs.39,402,050.9, security – Kshs.156,464 and cleaning – Kshs.23,155 contrary to Section 60(1) Public Procurement and Asset Disposal Act, 2015.

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 and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and 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 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 controls 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 ability of National Government Constituencies Development Fund – Kabete Constituency to sustain services, disclosing and as applicable matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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 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 sustaining 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 - Kabete 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

22 May 2019