

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kanduyi Constituency set out on pages 5 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 statement of comparison of budget and actual amounts 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund - Kanduyi 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 do not comply with the National Government Constituencies Development Fund Act, 2015.

Basis for Adverse Opinion

1. Inaccuracies in Financial Statements

1.1 Compensation of Employees

The statement of receipts and payments reflects compensation of employees figure of Kshs.4,074,115 for the year ended 30 June 2018 while the supporting schedules reflected a figure of Kshs.2,993,310 resulting to a variance of Kshs.1,080,805 which has not been reconciled or explained.

1.2 Use of Goods and Services

The statement of receipts and payments reflects use of goods and services figure of Kshs.10,026,616 for the year ended 30 June 2018 whereas the supporting schedules reflects a total of Kshs.8,417,721, resulting in a variance of Kshs.1,608,895 which has not been explained or reconciled.

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be confirmed.

2. Presentation of Financial Statements

2.1 Reporting Framework

The financial statements submitted for audit have not been prepared in accordance with the reporting framework recommended by the Public Sector Accounting Standards Board (PSASB). The statement of cash flows, summary statement of appropriation: recurrent and development and Project Management Committee (PMC) bank account balances schedule at annexure 2 to the financial statements do not disclose the reporting currency.

Further, although the financial statements indicate in the statement of compliance and basis of preparation under significant accounting policies that all values reported have been rounded off to the nearest shilling, notes 1.0, 2.0 and annexure 2.0 to the financial statements have not been rounded off. In addition, the numbers have not been properly aligned making their readability difficult. Further, the report on progress on follow up of auditor recommendations indicated as note 10.0 starting from page 18 of the financial statements includes budget performance comparison on pages 22 to 24 thus making the report unclear to the users.

2.2 Notes to the Financial Statements

The notes to the financial statements as indicated in the statement of receipts and payments, statement of assets and liabilities and the statement of cash flows are not in agreement with the supporting notes as disclosed in the financial statements as detailed below:

Financial Statement Items	Note No. in financial Statements	Actual Note No.
Compensation of Employees	4	2.0
Use of Goods and Services	5	3.0
Transfers to Other Government Units	6	4.0
Other grants and Transfers	7	5.0
Bank Balance	10A	6.0
Fund Balance brought forward 1 st July	13	7.0

In addition, the notes listed in the statement of receipts and payments and the statement of assets and liabilities, notes 2,3,8,9 and 10B,11,12 and 14 respectively, do not support any figure for the year under review or previous year and therefore do not serve any purpose.

Consequently, the financial statements did not comply with IPSAS (Cash Basis) and the reporting framework recommended by Public Sector Accounting Standards Board.

3. Cash and Cash Equivalents

The cash and cash equivalents balance as at 30 June 2018 reflects Kshs.490,648 being cash held in Cooperative Bank Account, Bungoma branch while the bank reconciliation for the month of June 2018 shows a balance of Kshs.50,753 resulting in an unexplained and unreconciled variance of Kshs.439,895.

Further, audit review on the bank reconciliation statement for the month of June 2018 revealed payments in bank not recorded in cashbook totalling Kshs.35,999 in respect of bank charges which should not had been reconciled and included as expenditure item during the year under review.

Consequently, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.490,648 as at 30 June 2018 is fairly stated.

4. Summary Statement of Appropriation

The summary statement of appropriation: recurrent and development combined reflects final budget of Kshs.91,312,998 for the year under review, comprising original budget of Kshs.86,810,345 and budget adjustment of Kshs.4,502,653 whereas records availed for audit review indicates a final budgets figure of Kshs104,692,308, resulting in an unexplained and unreconciled variance of Kshs.13,379,310. Consequently, the accuracy of the summary statement of appropriation: recurrent and development combined for the year ended 30 June 2018 cannot be confirmed.

5. Receivables from the NGCDF-Board

The financial statements submitted for audit do not disclose in the notes to the financial statements the balance of funds figure of Kshs.17,603,063 not received from the National Government Constituencies Development Fund Board out of the allocation to the Fund for the year under review. In addition, the financial statements do not disclose the projects to which the amount of Kshs.17,603,063 is payable as required by the reporting framework recommended by the Public Sector Accounting Standards Board (PSASB).

Consequently, the accuracy and completeness of the statement of receipts and payments for the year ended 30 June 2018 cannot 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 - Kanduyi 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 adverse 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 Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Budgetary Performance and Analysis

1.1 Budget Performance

According to the summary statement of appropriation: recurrent and development, the Fund had an approved budget of Kshs.91,312,998 on various projects. During the same period, the Fund incurred expenditure amounting to Kshs.87,086,145 representing 95% of the budget to result to under expenditure of Kshs.4,226,853 representing 5% of the approved budget as below:

Item	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under/(Over) Expenditure (Kshs)	Budget Utilisation %
Compensation of Employees	4,074,115	4,074,115	-	100%

Use of goods and services	8,241,469	10,026,616	(1,785,147)	122%
Transfers to Other Government Units	39,200,000	39,600,000	(400,000)	101%
Other grants and transfers	39,797,414	33,385,414	6,412,000	84%
Total	91,312,998	87,086,145	4,226,853	95%

However, the approved budget was understated by Kshs.13,379,210 which would have otherwise resulted in an under expenditure of Kshs.17,606,063. Non-utilization of all funds is an indication that all services and approved programs were not delivered, and therefore the budget did not meet the intended objectives of improving service delivery to the residents of Kanduyi Constituency.

1.2 Projects Implementation Status

According to the project implementation status report availed for audit review, the Fund had planned to implement five hundred and ninety-four (594) projects since 2013/2014 valued at Kshs.391,440,093 and which had been funded to a total of Kshs.370,215,671 and were at various levels of completion as summarised below: -

Period	Status	Complete and in Use (Kshs)	Ongoing Projects (Kshs)	Total (Kshs)
2016/17 & Earlier Years	Number of Projects	No.543	No. 34	No. 577
	Estimated cost	306,835,721	30,407,345	337,243,065
	Allocated amount	289,132,961	24,697,345	313,830,306
	Disbursed amount	307,796,311	13,522,333	321,318,644
2017/18 Financial Year	Number of Projects	No. 51	No. 6	No. 57
	Estimated cost	46,120,000	8,077,027	54,197,027
	Allocated amount	40,820,000	8,077,027	48,897,027
	Disbursed amount	40,820,000	8,077,027	48,897,027
Total	Number of Projects	No. 594	No. 40	No. 634
	Estimated cost	352,955,721	38,484,372	391,440,093
	Allocated amount	329,952,961	32,774,372	362,727,333
	Disbursed amount	348,616,311	21,599,360	370,215,671

Forty (40) projects with disbursements of Kshs.38,484,372 were classified as ongoing of which thirty-four (34) of them related to 2016/17 and earlier years with disbursements of Kshs.30,407,345 and which should have been completed by 30 June 2017.

Failure to complete these projects as planned denies the constituents of Kanduyi the opportunity to enjoy services envisioned by the budget.

2. Prior Year Audit Matters

In the previous year report, reference was made to an amount of Kshs,11,800,000 incurred on acquisition of twenty three (23) pieces of land for thirteen institutions. However, the title deeds registered in the names of the respective benefiting institutions were not availed for audit verification as ownership was still under the previous owners. No evidence has been

availed by the Fund on the efforts made to secure ownership of the properties for development of the Fund projects.

Consequently, the parcels of land are not secured to be developed by public resources.

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 public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Projects Verification

Included in transfers to other government units and other grants and transfers were payments amounting to Kshs.13,100,000 made to 14 projects which were however not implemented properly as summarised below;

Payee	Amount (Kshs)	Remarks
1. Ranje Primary School (Emergency)	700,000	The school had been advanced Kshs.8,700,000 in 10 tranches since 2013/14 to implement 5 projects namely construction of dormitories, administration block, teachers' houses, replacement of toilets and a septic tank. Save for the toilets funded under emergency none of the other projects was complete and it was not clear why the Fund had initiated multiple projects with residual allocations which have now lasted over 6 years and are still ongoing. The works done were certified complete and payments effected but there was no evidence inform of a detailed certificate that the actual measurements were done to warrant release of the funds.
2. Bukembe Administration Police Lines	1,200,000	The Construction of Administration Police Line had been advanced Kshs.2.4 million with the half of it been released during the period under review. Though the AP line is complete, it was noted that it has taken the CDFC about 5 years to deliver the project contrary to the requirements of the NGCDF Act, 2015. Further, the works done were certified complete and payments effected but there was no evidence inform of a detailed certificate that the actual measurements were done to warrant release of the funds
3. Kimukungi Coffee Factory	1,000,000	This project had been advanced Kshs.8,500,000 for various stages with the last 1.0m meant for fencing and purchase of a submersible water pump which have since been done and put into use. It was however noted that this is a devolved function and it was not clear why it has not

Payee	Amount (Kshs)	Remarks
		been handed over to the county government and further funding halted.
4. Mabuusi Primary School (Emergency)	800,000	The school had received Kshs.1.2m being 2013/14 disbursement of Kshs.0.4m for construction of 24, 2 door pit latrines and Kshs.0.8m during 2017/18 under emergency for renovation of 4 classrooms. The toilets were noted to be complete and the renovations undertaken for 5 classrooms. The classes were complete and handed over though the quality of timber used in re-roofing and general workmanship was poor. The payment final certificates did not have detailed measurement of works certified and therefore verification could not be completed.
5. Mukholi Primary School	1,000,000	The school had previously received cumulatively Kshs.4,700,000 of which Kshs.1,000,000 related to the year under review. The school was to purchase land; construct toilets and 8 classrooms. The land had been procured and two classrooms completed while 6 more were half complete and require at least a further Kshs.2,000,000. The works done were certified complete and payment effected but there was no evidence in form of a detailed certificate that the works were actually done as per the measurements to warrant release of the funds.
6. St. Veronica Ranje Girls Secondary School	700,000	The school had received Kshs.1,900,000 for the completion of the laboratory and dining hall and construction of 1 new classroom which was allocated Kshs.700,000. The projects payments were not supported by works measurements. Hence it was not possible to establish the extent of performance of the works.
7. Siaka Mixed Secondary School	700,000	A total of Kshs.2,700,000 had been disbursed to the school in three tranches from 2015/16 to purchase 1 acre piece of land and construct 3 classrooms one being for Kshs.700,000 during the 2017/18. The school had instead managed to put up 4 classes but their ramp was wearing off, the floors were having glaring cracks, while no black board was built instead part of the wall had been painted black to represent a black board. The final certificates did not have any measurement of works certified and therefore verification could not be completed.
8. St. Martins Mwibale Secondary School	1,000,000	The Fund irregularly paid the school a total of Kshs.4,000,000 in 3 tranches backdating to 2014/15 for the purchase of an Isuzu Semi Luxury FRR33L School Bus KCE 354D at an initial cost of Kshs 6,334,000 under co-funding arrangement with the School PTA. National Government Constituencies Development Fund - Kanduyi Constituency was to contribute Kshs.2,000,000 towards the purchase of the bus. The amount was disbursed to the school during the financial year 2014/2015 and the project

Payee	Amount (Kshs)	Remarks
		considered completed then. However, a further Kshs.2,000,000 (Kshs.1,000,000 each in 2015/2016 and 2017/2018) was disbursed to the school for the same bus project which ought to have been fully funded by a bank loan of Kshs.4,334,000 that the school secured from Cooperative Bank. No reason was provided why the Fund disbursed a further Kshs.2,000,000 for the same project besides the school being unable to provide records to show how the loan was funded through the PTA.
9. Khakula Secondary School	700,000	The school has been advanced Kshs.3,700,000 in six tranches dating backing to 2013/14 to purchase 3 acres piece of land at Kshs.1m; construct 3 classes at Kshs.2m in 2014-16 and a balance of Kshs.700,000 during 2017/18 for completion of the classrooms which had stalled. The school was noted to still owe the land seller Kshs.600,000 and had not processed any title deeds. The classes were complete and handed over. However, it was not explained how the school still owed for the land after full disbursement of the purchase price by the National Government Constituencies Development Fund – Kanduyi Constituency, and the steps taken to secure the installations on the land for which ownership had not been conferred to the school.
10. Mufule Primary School	700,000	The school had received Kshs.700,000 in 2014/15 to purchase a 1 acre piece of land and another similar amount in 2017/18 to construct a classroom. The school had not processed any title deed though was in physical possession of the land. The classes were complete and handed over but the payment final certificates did not have any measurement of works certified and therefore verification could not be completed..
11. St. Mary Magdalene Namamuka Secondary School	1,300,000	The school was advanced Kshs.700,000 for construction of a classroom during 2016/17 and a further Kshs.1,300,000 in 2017/18. A visit to the school revealed that no classroom was constructed and instead the total amount of Kshs.2 m was spent towards procurement of land without involvement of the Fund resulting to an irregular re-allocation.
12. Bungoma Muslim Secondary School	1,000,000	According to the records in the PIS the school had been given cumulatively Kshs.3,300,000 for construction of 5 classrooms which were said to be requiring Kshs.1m disbursed during 2017/18 purposely for plastering the foundation level. It was however noted that instead the project being initiated was for construction of a laboratory which is nearing completion with the works fairly progressing. It was not clear how this mix up had occurred or whether it was a variation.

Payee	Amount (Kshs)	Remarks
13. Siloba Secondary School	1,000,000	The school had received Kshs.1.0 m during the year under review to bring the total advances to Kshs.3,400,000 for the completion of a school administration block as well as an ablution facility projects which have been ongoing since 2014/15.
14. Sitoma Primary School	700,000	The total funds advanced to the school amounted to Kshs.3,760,000 which had over the years since 2013/14 being used to construct and renovate 7 classes with the current disbursement of Kshs.700,000 meant for construction of one class to completion.
Total	12,500,000	

Consequently, the propriety of the expenditure of Kshs.12,500,000 on the transfers to other government entities and other grants and transfers for the year ended 30 June 2018 could not be ascertained.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm 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 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 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 Fund'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 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 Fund 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 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 Fund 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 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

24 July 2019