

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KHWISERO 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- Khwisero Constituency set out on pages 1 to 27, 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, 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- Khwisero 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, 2015.

### **Basis for Qualified Opinion**

#### **1. Transfers to Other Government Units**

##### **1.1 Lack of Supporting Schedule**

The transfers to other government units reflects a figure of Kshs.52,020,345 which includes transfers to primary schools of Kshs.32,520,345, transfers to secondary schools of Kshs.18,050,000 and transfers to health institutions of Kshs.1,450,000 as disclosed in Note 6 to the financial statements. However, details of the institutions that received the funds were not availed for audit review.

##### **1.2 Transfers to Health Institutions**

The transfers to other government units figure of Kshs.52,020,345 includes transfers to health institutions amount of Kshs.1,450,000 for the year ended 30 June 2018 as disclosed in Note 6 to the financial statements. However according the audited financial statements

for the year ended 30 June 2017, the undisbursed amounts due to health institutions as at 30 June 2016 amounted to Kshs.1,000,000 as per Annexure 2 to the previous year's financial statements. The management did not provide explanation on why the outstanding balance was not disclosed among the payables as at 30 June 2017. In addition, the source of the additional amount of Kshs.450,000 was not explained since health function is a devolved function and do not fall under projects to be funded and implemented by the National Government Constituencies Development Fund.

### **1.3 Emalindi Primary School**

Included in the transfers to other government units figure of Kshs.52,020,345 is transfers to primary schools of Kshs.32,520,345 as disclosed in Note 6 to the financial statements, which in turn includes Kshs.1,000,000 disbursed to Emalindi Primary School for completion of administration office block. The project was intruding 2016/2017 financial year at a contract sum of Kshs.2,881,614 and was to be completed in three years. However, as at the time of audit in February 2019, the project was incomplete and appeared to have stalled at roofing level and the contractor was not on site. Although the management explained that the delay in completion was due to funding, which has been budgeted for during 2019/2020, no reason has been provided as to why the amount required to complete the project was not budgeted for during 2018/2019.

Consequently, residents of Khwisero Constituency may not have received value for money incurred on the projects.

## **2. Bursary Disbursements**

Included in other grants and transfers amount of Kshs.44,965,421 is Kshs.35,037,490 in respect of bursaries to secondary schools, tertiary institutions and special schools of Kshs.27,482,490, Kshs.7,273,000 and Kshs.282,000 respectively as disclosed in Note 7 to the financial statements. However, acknowledgement letters from recipient institutions were not availed for audit review. Further information available indicates that as at 30 June 2018, cheques totalling Kshs.3,453,000 payable to various schools and colleges that had been issued between 18 April 2018 and 25 May 2018 had not been presented for payment by the time of audit and therefore deemed stale. However, the management have not demonstrated the measures put in place to ensure that all bursary cheques are dispatched to the recipient institutions promptly as stipulated in the NGCDF Board Circular Vol.1/111 dated 13 September 2010 which requires the CDFs to put in place adequate systems and procedures in the disbursement of bursary funds.

In the circumstances, it was not possible to ascertain the accuracy and propriety of the bursary expenditure of Kshs.35,037,490 incurred during the year under review.

## **3. Non-Disclosure of Bank Charges**

During the month of June 2018, the Fund incurred bank charges totalling Kshs.2,700 as disclosed in the bank reconciliation statement. However, the bank charges have not been disclosed in the financial statements for the year ended 30 June 2018.

Consequently, the accuracy of the financial statements for the year ended 30 June 2018 cannot be confirmed.

#### **4. Project Management Committee (PMCs) Accounts**

Note 15.4 to the financial statements reflects project management committee bank account balances of Kshs.40,939,555 in respect of unutilized funds as at 30 June 2018 while the supporting annexure 5 to the financial statements reflects a figure of Kshs.40,849,221 resulting to a an unexplained and unreconciled variance of Kshs.90,334. In addition, bank statements, certificates of bank balance, cashbooks and bank reconciliation statements were not availed for audit review.

Consequently, the validity, accuracy and existence of the project management committee bank account balance of Kshs.40,939,555 could not be confirmed.

#### **5. Abandoned Constituency Vehicle GK A371U**

The summary of fixed asset register at Annexure 4 reflects total assets of Kshs.28,471,950 which, include transport equipment amount of Kshs.4,599,500 in respect of the Fund motor vehicle. However, as previously reported, the Fund's vehicle, Land Rover Puma, GKA371U, was not available for use since April 2017 when it was towed to CMC Nakuru after breaking down on its way to Nairobi. Further, it was noted that the repair expenditure arrears which were initially estimated at Kshs.793,544 for overhauling the vehicle had not paid and therefore the vehicle remained held at the CMC garage and the management have not demonstrated efforts being made to have the vehicle back.

Consequently, the projects monitoring and evaluation works were not undertaken during the year and the accuracy and validity of the assets balance of Kshs.28,471,950 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 - Khwisero 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. Budgetary Control and Performance

#### 1.1 Budget Performance

The Fund had an approved budget of Kshs.133,491,996 for the financial year 2017/2018. During the same period, the Fund recorded expenditure of Kshs.104,795,975 representing 79% of the approved budget resulting to an under expenditure of Kshs.28,696,021 representing 21% of the budget as detailed below:

Item	Approved Budget 2017/2018 (Kshs)	Actual Expenditure (Kshs)	Under Absorption Kshs)	Under Absorption %
Compensation of Employees	2,719,770	1,618,593	1,101,177	40%
Use of goods and services	9,008,696	6,191,616	2,817,080	31%
Transfers to Other Government Units	62,728,630	52,020,345	10,708,285	17%
Other grants and transfers	54,357,873	44,965,421	9,392,452	17%
Other Payments	4,677,027	0	4,677,027	100%
<b>Total</b>	<b>133,491,996</b>	<b>104,795,975</b>	<b>28,696,021</b>	<b>21%</b>

Non-utilization of funds is an indication that services and approved programs may not have been rendered, and therefore the budget did not meet the intended objectives of improving service delivery to the residents of Khwisero Constituency.

#### 1.2 Projects Implementation Status

The management did not provide project implementation status report as at 30 June 2018 contrary to the provisions of Regulation 26 (2) of the National Government Constituencies Development Fund Regulations, 2016 which stipulates that a constituency committee shall carry out monitoring and evaluation of projects at regular intervals and shall submit reports on the monitoring and evaluation exercise in accordance with the guidelines issued by the National Government Constituencies Development Fund Board.

Consequently, the projects implementation status as at 30 June 2018 could not be confirmed.

## 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**

### **Un-authorised Expenditure on Committee Allowances**

The use of goods and services figure of Kshs.6,196,616 includes committee expenses amount of Kshs.2,926,500 as disclosed in Note 5 to the financial statements. However, the expenditure of Kshs.2,926,500 exceeded the approved budget of Kshs.2,334,557 resulting to an unauthorised expenditure of Kshs.591,943 which was 25% above the budgeted amount.

Consequently, the management breached the law and the probity of the committee expenses over-expenditure of Kshs.591,943 could not be confirmed.

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 else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **Failure to Raise Payment Documents by PMCs**

Audit review of sampled projects files revealed that the Project Management Committees (PMCs) did not raise payment vouchers in support of payments made out of their respective project bank accounts. Such payment vouchers would have all the necessary supporting documentation together with the necessary approvals and authorities. Consequently, there is the risk of making payments that are not appropriately authorised.

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 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 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 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 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**

**20 May 2019**