

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIAMBAA 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- Kiambaa Constituency set out on pages 8 to 26, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flow 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 matter 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- Kiambaa 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. Net Financial Position**

The statement of financial assets as at 30 June 2018 reflects net financial assets of Kshs.37,164,906 and nil liabilities. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the net financial position of Kshs.37,164,906 has instead been presented as net liabilities.

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

Kiambaa NG-CDF had budgeted to spend Kshs.99,577,609 but the actual expenditure was Kshs.51,033,392 or 51%, resulting in under expenditure of Kshs.48,544,217 or 49% of the total budget which has not been explained satisfactorily.

The development budget was Kshs.88,985,517, against actual expenditure of Kshs.46,574,300 or 52%, resulting in under expenditure of Kshs.42,411,217 or 48% of the total budget which equally has not been satisfactorily explained.

The under expenditure on the budgeted items implies that some of the planned activities and programmes were not executed and hence, resulting in inefficient and ineffective service delivery to the constituents.

#### 2. Construction of Toilets Block, Fittings and Painting at Gatatha Primary School

A contract for construction of toilets block, fittings and painting at Gatatha Primary School was awarded to a contractor at Kshs.2,610,750 but contract documents do not indicate contract period.

Examination of payment records show that the contractor has been paid Kshs.1,793,979 as at 30 June 2018 while the bank statement of the Project Management Committee (PMC) has revealed unexplained payments amounting to Kshs.1,611,436 as follows:

No.	Date	Cheque No	Payee	Amount-Kshs
1	9/3/2017	16	Jombto Enterprises	100,000

2	21/4/2017	19	Jombta Enterprises	688,578
3	5/5/2017	20	Sombet Enterprises	688,578
4	24/5/2017	21	Mochacha Electricals	134,280
			<b>Total</b>	<b>1,611,436</b>

Examination of records further show that the bank charged Kshs 2,500 due to cheque number 19 for Kshs 688,578 which bounced and was later replaced with cheque number 20 for similar amount.

An audit inspection undertaken on 7 May 2019 revealed anomalies as follows:

- (i) Tiles work, urinal pit, verandas, painting works and fittings are not complete.
- (ii) The quality of washing taps, doors and the plastering works is wanting.
- (iii) No documentary evidence that the works were designed, supervised and certified by technically qualified professionals.
- (iv) No site instructions, progress of work reports and site meeting minutes, respectively.

In view of the circumstances, it is not possible to confirm that the expenditure so far incurred on the toilets is valid and effective.

### **3. Construction of a Resource Hall and Four Self-Contained Residential Houses for Police at Kiambaa Chief's Office**

Examination of records show that an amount of Kshs 10,000,000 was transferred in 2017/2018 financial year for construction of a resource hall and four self-contained residential houses for police at Kiambaa Chief's Office. However, the management has not provided contract documents and progress reports to enable an evaluation of the works undertaken so far on the project.

Further, examination of bank statement of the Project Management Committee (PMC) has revealed unexplained payments totalling Kshs 1,900,000 as follows:

<b>No.</b>	<b>Date</b>	<b>Cheque No</b>	<b>Payee</b>	<b>Amount-Kshs</b>
1	21/2/2017	1	Alex Kioko	800,000
2	28/2/2017	5	Rofrac Investments	670,000
3	3/3/2017	6	Stephen Kimani Njenga	200,000
4	15/3/2017	7	Stephen Kimani Njenga	230,000

An audit inspection undertaken on 8 May 2019 revealed anomalies as follows:

- (i) The contractor was not on site.
- (ii) The plastic ceilings material used have started to wear out even before the houses are occupied.
- (iii) No evidence that the project was designed and construction works supervised by technically qualified professionals.
- (iv) Design drawings, site instructions, progress reports and site meeting minutes were not made available for audit review.
- (v) The resource centre does not exist.

In view of the circumstances, it is not possible to confirm that the expenditure so far incurred on the project is valid and effective.

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 - Kiambaa 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 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 - Kiambaa 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**