

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIBWEZI WEST 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 - Kibwezi West Constituency set out on pages 11 to 49, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, the statement of cash flows 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Kibwezi West 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 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 Kibwezi West NGCDF 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. There were no Key Audit Matters to report in the year under review.

### **Other Matter**

#### **1. Value for Money Procurement**

The statement of receipts and payments reflects transfers to government units amounting to Kshs.19,642,638 (2017-Kshs.80.743,983) and disclosed under Note 6 to the financial statements. During the year under review, the Fund used the transferred funds to renovate classrooms classrooms at three primary schools and constructed a dormitory at Nthia Secondary school at a total cost Kshs. 6,243,105 as detailed below:

<b>Project Name</b>	<b>Project Activity</b>	<b>Estimated Cost (Kshs.)</b>
Kasuvi Primary School	Renovation of 4no. classrooms (roofing, plastering, fixing of doors and windows, flooring and painting)	800,000
Itiani Primary School	Renovation of 5no. classrooms (roofing, plastering, fixing of doors and windows, flooring and painting)	1,000,000
Emali Township Primary School	Renovation of 8no. classrooms (roofing, plastering, painting and flooring, fixing of doors and windows)	1,500,000
Nthia Secondary School	Construction of a dormitory	2,943,105
	<b>Total</b>	<b>6,243,105</b>

However, site visits on March 2019 and less than one year since the works were done, revealed that the classrooms and dormitory had developed cracks on the walls indicative of poor workmanship.

In the circumstances, I am unable to confirm whether value for money has been received from the expenditure charge of Kshs.6,243,105 on the classrooms renovations and dormitory construction.

## **2. Budgetary Absorption**

The Fund summary statement of appropriation: recurrent and combined reflects final budget of Kshs.141,815,260 against actual on comparable basis of Kshs.79,194,978 resulting to budget performance 56% as detailed out below:

<b>Receipt/ Expense Item</b>	<b>Final Budget Kshs.</b>	<b>Actual on Comparable Basis Kshs.</b>	<b>Budget Utilization Difference Kshs.</b>	<b>% Utilization</b>
Transfers from CDF Board	139,592,850	74,353,447	65,239,403	53%
Other Receipts	2,222,410	2,222,410	-	100%
	141,815,260	76,575,857	65,239,403	54%
<b>Payments</b>				
Compensation of Employees	4,473,872	2,345,552	2,128,320	52%
Use of Goods and Services	9,147,856	4,187,293	4,960,563	46%
Transfers to Other Government Units	58,833,787	19,642,638	39,191,149	33%
Other Grants and Transfers	55,942,592	43,456,967	12,485,625	78%
Acquisition of Assets	8,740,120	4,885,500	3,854,620	56%
Others (ICT HUB)	4,677,030	4,677,027	3	100%
<b>Totals</b>	<b>141,815,257</b>	<b>79,194,977</b>	<b>62,620,280</b>	<b>56%</b>

All the expenditure budget lines except Other Expenses (ICT Hub) had deviations of more than 10%. Failure to utilize resources allocated denies the residents of Kibwezi West Constituency an opportunity to benefit from the intended services.

## 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, 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

#### Stalled and Projects Not Commenced

A scrutiny of the project implementation status report as at 30 June 2018 revealed that twenty (20) projects with budgetary allocation and disbursement of Kshs. 27,903,235 and Kshs.22,103,238 respectively were underway. Additionally, seven (7) projects with a budgetary allocation and disbursements of Kshs.11,417,931 and Kshs.568,966 respectively as tabulated below had not started.

	<b>Project Name</b>	<b>Project Activity</b>	<b>Estimated Cost (Kshs.)</b>	<b>Disbursed Amount (Kshs.)</b>	<b>Project Status</b>
1.	Kibwezi Sub County Education Office	Construction of 4door pit latrines back to back	230,000	230,000	Not Started
2.	Sports Activities	Carry out constituency sports tournament and winning teams/schools to be awarded with trophies, balls and games kits.	1,500,000		Not Started
3.	Environment Activities	Fencing of Chyullu Game Reserve 1Km (Co-funded perimeter fence)	1,500,000		Not Started
4.	Musingini Primary School	Renovation of 4no. classrooms (roofing, plastering, fixing of doors and windows, flooring and painting)	800,000		Not Started
5.	Muatini Primary School	Renovation of 5no. classrooms(roofing, plastering, painting and flooring, fixing of doors and windows)	1,000,000		Not Started
6.	Emergency	To cater for any unforeseen occurrences in the	5,137,931	338,966	On-going

	<b>Project Name</b>	<b>Project Activity</b>	<b>Estimated Cost (Kshs.)</b>	<b>Disbursed Amount (Kshs.)</b>	<b>Project Status</b>
		constituency during the financial year			
7.	Kibwezi Police station	Construction of staff house 3No units and installation of power.	1,250,000		Tendering underway
	<b>Total</b>		<b>11,417,931</b>	<b>568,966</b>	

Although the Fund management attributed the delays in project completion and commencement to release of funds from the National Government Constituencies Development Fund Board, failure to start, implement and complete projects on time could lead to cost escalation and may attract litigations by the contractors. Further, the public will not benefit from the intended services from the projects due to delays.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

### 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 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 (Accrual 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 its services to the public, disclosing, as applicable, matters related sustainability of services and using the going concern 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 Fund 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 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**

**23 August 2019**