

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KILIFI NORTH 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 – Kilifi North Constituency set out on pages 12 to 46 which comprise the statement of financial assets and liabilities as at 30 June 2018, and statement of receipts and payments, 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, 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-Kilifi 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 and comply with the National Government Constituencies Development Fund Act No. 30 of 2015.

Basis for Qualified Opinion

1.0. Bank Reconciliation Statements

The statement of financial assets as at 30 June 2018 reflects bank balances of Kshs.35,202,776. However, the following anomalies were noted:

1.1 Stale Cheques

Excluded from the cash and bank balances of Kshs.35,202,776 as at 30 June are stale cheques amounting to Kshs.38,000 as detailed below:

Date	Payee	Cheque No.	Amount Kshs
16/01/2018	St. Mary's Mumias School	3732	5,000
16/01/2018	Tawheed Girls	3733	5,000
16/01/2018	Lutsangani Sec school	3745	5,000
16/01/2018	Ngomeni Secondary school	3770	5,000
26/02/2018	Moi Girls Secondary School	3914	13,000
08/03/2018	Asumbi Girls secondary school	4027	5,000
	Total		38,000

These stale cheques had not been reversed into the cash book as at the time of this audit. The management has not provided an explanation why the same had not been reversed in the cash book.

As a result, the validity, accuracy and completeness of bank balance of Kshs.35,202,776 at

30 June 2018 could not be confirmed.

1.2 Bank Charges

Note 10A to the financial statements for the year ended 30 June 2018 reflects bank balances of Kshs.35,202,776. However, reconciliation statements availed for audit revealed bank charges of Kshs.40,090.35 that were indicated as reconciling item (payments in bank statement not credited to cashbook) resulting to understatement of the cashbook balance as at 30 June 2018.

Consequently, the validity, accuracy and completeness of the bank balances of Kshs.35,202,776 as at 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Kilifi North 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 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 matter described in the Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0. Budgetary Controls and Performance

1.1 Revenue Budget

During the year under review, the National Government Constituencies Development Fund – Kilifi North Constituency had a final budget of Kshs.115,715,565 against actual receipts of Kshs.97,455,254 (Comprised of opening cash balances - Kshs.10,525,909; transfers from Board - Kshs.86,810,344; other receipts-Kshs.119,000) resulting to a shortfall of Kshs.18,260,311 representing 16% of total budgeted amounts as detailed below:

Vote Item	Final Budget (Kshs)	Actual Receipt (Kshs)	Over Absorption (Kshs)	Under Absorption (Kshs)	% Over/Under Absorption
Transfers from NG-CDF Board	115,715,565	97,336,254		18,379,311	(16%)
Other receipts		119,000	119,000		100%
Total	115,715,565	97,455,254	119,000	18,379,311	16%

Scrutiny of the budget also revealed that the entity did not budget on receipts from sale of tender. No explanation or justification was obtained for failure to budget for this receipts.

1.2 Expenditure Budget

During the year under review, the National Government Constituencies Development Fund – Kilifi North Constituency had a final budget of Kshs.115,715,565 against actual expenditure of Kshs.62,252,477, resulting to an under absorption of Kshs.53,463,088 or 46 % as summarized below:

Receipt/ Expense Item	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Under Absorption in Kshs.	% of Utilization	Under Absorption - %
Compensation of Employees	4,241,820.69	2,804,927.00	1,436,893.69	66	34
Use of goods and services	7,885,417.83	7,274,209.35	611,208.48	92	8
Transfers to Other Government Units	55,062,207.56	36,345,000.00	18,717,207.56	66	34
Other grants and transfers	38,986,794.07	15,828,341.00	23,158,453.07	41	59
Acquisition of Assets	362,297.45	-	362,297.45	0	100
Other Payments	9,177,027.20	-	9,177,027.20	0	100
Total	115,715,564.80	62,252,477.35	53,463,087.45	54	46

The management attributed the under absorption to delay in fund disbursements from the Board. There is need therefore, for the Fund management and the Board to ensure quick disbursement of the funds so that all planned and budgeted for projects and activities can be implemented in time for the benefit of the residents of Kilifi North Constituency.

2 Project Implementation Status

The project status report availed for audit review indicated that a total of Kshs.61,512,070 was allocated for forty-six (46) projects. Further, out of forty-six (46) projects, ten (10) projects with total allocation of Kshs.5,782,989 were on-going while one (1) project with allocation of Kshs.1,500,000 had not started as detailed below:

Item No.	Project Name	Project Description/Activities	Allocation Kshs.	Current Status
1.	Goods and services	Purchase of fuel, repair and maintenance, printing, stationery, office refreshments, telephone, travel and subsistence	896,482.70	Ongoing
2.	Committee expenses	Payment of committee sitting allowances, transport and conference costs	854,000.00	Ongoing
3.	CDFC / PMC Capacity building	Training CDFCs / PMCs on CDF related issues	853,827.64	Ongoing
4.	Environmental Projects	Construction of a greenhouse (885,575.01) and drilling of borehole (300,000.00) for Mkwajuni primary school	1,185,575.00	Ongoing

5.	Goods and services	Purchase of fuel, repair and maintenance, printing, stationery, office refreshments, telephone, travel and subsistence	300,000.00	Ongoing
6.	Committee expenses	Payment of committee sitting allowances, transport and conference costs	382,758.62	Ongoing
7.	Goods and services	Purchase of fuel, repair and maintenance, printing, stationery, office refreshments, telephone, travel and subsistence	100,000.00	Ongoing
8.	Committee expenses	Payment of committee sitting allowances, transport and conference costs	241,379.32	Ongoing
9.	Emergency	Prepare for any unforeseen occurrence in the constituency during the financial year	568,965.51	Ongoing
10.	Watamu primary	Supply of 100 desks	400,000.00	Ongoing
	Sub Total On-going Projects		5,782,989.00	
11.	Dongo Kundu Primary	Construction of a foot bridge	1,500,000.00	Not started
	Sub Total Not Started		1,500,000.00	
	Grand Total		7,282,989.00	

From the above analysis, the budget was not fully implemented as envisaged. The slow and lack of completion of projects may impact negatively on delivery of goods and services to the residents of Kilifi North Constituency.

3 Project Inspection

During the year under review, six (6) projects with a total allocation of Kshs.6,985,575 were visited for verification in the month of February, 2019 and the following status of affairs of the specific projects were observed:-

Item No	Project	Allocation Kshs.	Status as per Project Status Report	Auditors Observations
1.	Sita Primary School – Construction of 2 Classrooms	2,400,000	Complete	Project was observed to have been completed. Red oxide left out when finishing floor. Project undertaken and completed on land whose ownership is yet to be transferred and whose payments are yet to be made to the seller of the land. School yet to be occupied by students. No teachers at the school.
2.	Sita Primary School- Construction of four (4) door Toilet Block	800,000	Complete	Project was observed to be complete. However, gutters amounting to Kshs.84,000 provided for in the Bill of Quantity were not fitted. Windows provided for in the bill of quantity worth Kshs.60,000 not fitted. Project undertaken on land whose ownership is yet to be transferred to Sita Primary school and whose payment is yet to be made to the seller of the land.
3.	Uyombo Maweni Primary School – Construction of Toilet Block	500,000	Complete	UPVC Pipe and windows worth Kshs.125,000 not fixed although provided for in the Bill of Quantity. Red oxide left out when finishing floor
4.	Mkwajuni Primary School – Construction of Greenhouse and drilling of borehole	1,185,575	Ongoing	Project observed to be substantially complete though it has delayed in completion.
5.	Kiwandani Secondary School- Administration block	2,100,000	Complete	Completed and in use - however 5 ceiling fans and wiring not done
	Total	6,985,575		

Lack of proper supervision by the CDF Committee has led to poor workmanship to the detriment of the welfare of the Kilifi North constituents. There is need, therefore, to ensure that all projects are properly supervised to ensure satisfactory completion of the projects.

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

1. Transfers to Other Government Entities

1.1 Acquisition of Land

Note 6 to the financial statements for the year ended 30 June 2018 reflects transfers to primary schools of Kshs.24,905,000. Included in this amount is Kshs.4,000,000 transferred to Project Management Committee (PMC) for Sita Primary school for purchase of 3 acres of land. However, review of the PMC meeting minutes' file revealed that the seller of land acquired, and for which a sale agreement had been signed by all parties, was not identified and selected through a competitive procurement process contrary to regulation 115 (1) of the Public Finance Management (National Government) Regulations, 2015, that requires all purchases be procured in accordance with the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the Project Management Committee was in breach of the law.

1.2 Re-allocation Not Approved

Note 6 to the financial statements for the year ended 30 June 2018 reflects transfers to primary schools of Kshs.24,905,000. Included in this amount, is transfer to Uyombo Maweni Primary School of Kshs.500,000 for roofing of 2 classrooms. However, the Project Management Committee (PMC) changed/ re-allocated the project activity to construction of a toilet block. The change (re-allocation) of project activity was not approved by the National Government Constituencies Development Fund Board, contrary to Section 6 (2) of the National Government Constituencies Development Fund Act, 2015 which requires re-allocations be approved by the Board.

Consequently, the Project Management Committee was in breach of the law.

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, except for the matter(s) described in the Basis for [Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion] section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall 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 (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 ability of the Fund 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 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 Fund's 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 Fund's 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 noncompliance. 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 ability of the Fund 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 National Government Constituencies Development Fund – Kilifi North Constituency 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 National Government Constituencies Development Fund – Kilifi North 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

16 April 2019