

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KILIFI SOUTH 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 South Constituency set out on pages 6 to 30, which comprise the statement of assets as at 30 June 2018, and the 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 South 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Bank Balances

The statement of assets as at 30 June 2018 reflects Kshs.34,326,618 in respect of bank balances. However, the bank reconciliation statement reflected errors and bank charges amounting to Kshs.34,050 which had been outstanding for more than two months. Although the management indicates that the errors and bank charges were passed in the cash book in January 2019, the cashbook balance as at 30 June 2018 is still misstated to the extent of the uncorrected errors as at the same date.

In addition, included in unpresented cheques of Kshs.2,317,634, are sixty four (64) cheques which had not cleared in the bank as at the time of audit, February 2019 implying they were stale. However, the cheques had not been reversed in the cash book and the management has not clearly explained why the cashbook had not been updated. Consequently, the accuracy and completeness of bank balance of Kshs.34,326,618 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 – Kilifi South 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 other key audit matters to communicate in my report.

Other Matters

1.0 Budgetary Controls and Performance

1.1. Revenue Budget

According to the 2017/2018 approved budget estimates, National Constituencies Development Fund- Kilifi South Constituency expected to received Kshs.105,396,221. However, the Fund received actual total of Kshs.88,680,704 resulting to a shortfall of Kshs.16,715,517 or 16% of the targeted revenue.

This may have affected implementation of planned projects for the benefit of the residents of Kilifi South Constituency. There is need to do proper budgeting on priority basis.

1.2. Expenditure Budget

The summary statement of appropriations reflect a final budget a final expenditure budget of Kshs.105,396,221 for the financial year 2017/2018 against total expenditure of Kshs.54,491,866 resulting to under absorption of Kshs.50,904,355 or 48% as summarized below:

Budget Line	Final Budget Kshs.	Actual Expenditure Kshs.	Unspent Balance Kshs.	% of Utilization
Compensation of Employees	3,344,369	2,273,647	1,070,722	68%
Use of Goods and Services	8,101,151	4,568,100	3,533,051	38%
Transfers to Other Government Units	46,177,584	15,137,930	31,039,654	40%
Other Grants and Transfers	47,673,117	32,512,189	15,160,928	74%
Acquisition of Assets	0	0	0	0%

Budget Line	Final Budget Kshs.	Actual Expenditure Kshs.	Unspent Balance Kshs.	% of Utilization
Other Payments	100,000	0	100,000	0%
Total	105,396,221	54,491,866	50,904,355	52%

The Fund had a total under-expenditure of Kshs.50,904,355 representing 48% of the budget. This implies that public funds were lying idle at the expense of other deserving areas. Although the management has attributed the situation to delays in receiving funds from the National Government Constituencies Development Fund Board where Kshs.38,168,966 was received on 18 June 2018, this may affect delivery of goods and services to the residents of Kilifi South Constituency contrary to values and principles of public service as provided for under Article 232 (1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

1.3. Project Implementation Status

According to the project implementation status report as at 30 June 2018, the following four (4) projects with a total budget of Kshs.8,677,027.20 were not implemented during the period under review:

No.	Financial Year	Project name	Project Activity	Allocation	Status
1	2016/2017	Mwezang'ombe Primary School	Completion of 1 classroom	400,000.00	Not started
2	2016/2017	Mwarakaya Secondary School	Completion of laboratory	1,000,000.00	Not started
3	2017/2018	Makata Primary School	Construction of 2 No. new classrooms to completion	2,600,000.00	Not started
4	2017/2018	ICT Centre	Installation of necessary ICT equipment – in Shimo la tewa, Mtepeni, Chasimba/ Mwarakaya and Junju wards	4,677,027.20	Not started
		Total		8,677,027.20	

Although three (3) of the projects had been implemented by the time of audit in the month of January 2019, delayed implementation of projects denies residents intended benefits. In addition, non-implementation of development projects affects goods and service delivery to the public and the intended purpose of the projects may not to be realized.

1.4. Project Inspection

Audit inspection of five (5) projects with a total allocation of Kshs.13,937,930 during the month of January 2019 indicated the following state of affairs of the following specific projects:

No	Project Verified	Project Activity	Allocation Kshs.	Observations
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1	Dindiri Secondary School	Construction of Laboratory	4,500,000	Rain water gutter, pelmet boxes and fume cupboard extract fan were not fitted. Sanitary fittings did not conform to the specifications in the bills of quantities
2	Muhomkulu Primary School	Construction of Classrooms	2,600,000	100x25mm skirting had not been done on the walls
3	Bembo Primary School	Construction of Classrooms	2,600,000	Project complete and in use. However, details of provisional sum was not availed.
4	Mwangaza Primary School	Construction of Classrooms	2,600,000	Doors and paints did not conform to the specifications in the bills of quantities 100x25mm skirting had not been done on the walls
5	Ng'ombeni Primary School	Construction of Pit Latrines	1,637,930	Roofing materials did not conform to the specifications in the bills of quantities. Padlocks, ventilators and gloss oil paint had not been done.
		Total	13,937,930	

The above observations are indication of poor workmanship which casts doubt on project supervision and value for money for public funds.

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 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

1.0 Bank Balances for Closed Projects

Annex 5 to the financial statements reflects bank balances in forty five (45) project management committees' bank accounts totaling Kshs.7,127,433. The annex includes balances for four (4) closed projects totaling of Kshs.427,542 and which had not been refunded to the Fund's main account as detailed below:

No.	PMC	Bank Balance (Kshs.)
1	Pingilikani Primary School	201,620
2	Chasimba Central Primary School	192,680
3	Mtepeni Secondary School	15,167
4	Dindiri Primary School	18,075.10
	Total	427,542.10

This was contrary to Section 12 (8) of National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account. Therefore, the management was in breach of the laws.

2.0 Project Supervision

Records availed for audit verifications indicate that during period under audit, the National Government Constituencies Development Fund – Kilifi South Constituency used their own staff employed as a Clerk of works to prepare bills of quantities, drawings and supervise construction projects. This was contrary to Section 36 (1) of the National Government Constituencies Development Fund Act, 2015 which states that projects under this Act shall be implemented by the project management committee, with the assistance of the relevant department of Government. Although the management has argued that the County Works officers are constrained, the projects may not have utilized the expertise of the government officers.

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 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 such 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 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 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 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 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 National Government Constituencies Development Fund – Kilifi South Constituency 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 National Government Constituencies Development Fund – Kilifi South Constituency to cease to continue 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 South 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

08 May 2019