

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIMILILI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Kimilili Constituency set out on pages 11 to 32, 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund – Kimilili 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 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 National Government Constituencies Development Fund - Kimilili 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budget Control and Performance

1.1. Inaccuracies in Budget Analysis

The summary statement of appropriation: recurrent and development combined reflects final budget of Kshs.106,403,972 whereas the records availed for audit review reflects a figure of Kshs.105,753,344, resulting to an unexplained variance of Kshs.650,628 as analysed below:

Item	Figure as per Statement of Appropriation Kshs.	Figure as per Records Kshs.	Variance Kshs.
Original Budget	86,810,345	86,810,345	-
Supplementary Budget	11,379,310	11,379,310	-
Undisbursed - (2015/2016 & 2016/2017)	2,450,628	1,800,000	650,628
Cash and Cash Equivalents 2016/2017	5,763,689	5,763,689	-
Total	106,403,972	105,753,344	650,628

1.2. Budgetary Performance

During the year under review, the Fund had an approved budget Kshs.106,415,972 out of which it incurred total expenditure of Kshs.81,618,429, resulting to a budget under-utilization of Kshs.24,797,543 representing 23% of the budget as detailed below: -

Expenditure Item	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under Absorption (Kshs)	Under absorption %
Compensation of Employees	3,115,852	2,681,458	434,394	14
Use of Goods and Services	9,430,772	8,276,259	1,154,513	12
Transfers to Other Government Units	45,277,831	33,700,341	11,577,490	26
Other Grants and Transfers	43,572,693	32,091,371	11,122,322	26
Acquisition of Assets	2,511,985	2,510,000	1,985	0
Other Payments	2,506,840	2,000,000	506,840	20
Total	106,415,972	81,618,429	24,797,543	23

Failure to utilise funds is an indication that services and approved programs were not delivered as planned and therefore the budget did not meet all the intended objectives of improving delivery of services and programmes to Kimilili Constituents.

1.3 Projects' Implementation Status

According to the project implementation status report availed for audit review, the Fund had planned to implement two hundred and fifty-one (251) projects valued at Kshs. 401,816,347 and which were at various levels of completion as summarized below:

Period	Complete		New		Not Started		Ongoing		Total Value	
	No	Value Kshs.	No	Kshs.	No	Kshs.	No	Kshs.	No	Kshs.
2016/17 & earlier years	170	228,856,063	2	2,200,000	2	1,612,870	55	90,046,552	229	322,715,485
2017/18	6	43,811,207	0	-	0	-	16	35,289,655	22	79,100,862
Total	176	272,667,270	2	2,200,000	2	1,612,870	71	125,336,207	251	401,816,347

From above analysis, fifty-five (55) projects with disbursements of Kshs. 90,046,552 relating to 2016/2017 and prior years that ought to have been completed by 30 June 2017 were classified as still ongoing while another four (4) projects for such prior period were either not started or were new.

Further, sixteen (16) projects of Kshs. 35,289,655 have remained ongoing yet they should have been completed and handed over by 31 December 2018 and no reasons were provided for the failure to implement all the projects as budgeted.

Consequently, the constituents of Kimilili Constituency may not have benefited from the incomplete 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

Payments Not Adequately Supported

During the field verification undertaken as well as review of the records, it was noted that payments totalling Kshs. 25,246,460 were made to the contractors and suppliers without adequate supporting documents including detailed summary of works and certificates linking each project to its bills of quantities as detailed below:

	Grant Beneficiary	Amount (Kshs.)
1.	New Hope Mwangale	2,400,000
2.	Allan Bradley (Kamusinga) Primary	3,000,000
3.	ACK Chelekei Secondary school	2,400,000
4.	CDF Office Access Road	604,130
5.	NG CDF Office Renovation Project	2,400,000
6.	CDF C Office	2,400,000
	Grant Beneficiary	Amount (Kshs.)
7.	Sulieman Murunga Primary School	4,550,000
8.	Daraja Mungu Primary School	2,400,000
9.	Kikwechi Primary School	3,500,000
10.	CDF Office Access Road	604,130
11.	Kimilili - Matili Road	988,200
	Total	25,246,460

Consequently, the probity of expenditure amounting to Kshs. 25,246,460 for the year ended 30 June 2018 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, 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.

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 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 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 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 Fund's 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 Fund's 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 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

10 July 2019