

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KISAUNI 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 – Kisauni Constituency set out on pages 7 to 29, 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 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 effects 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 – Kisauni 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 Constituency Development Fund Act, 2015.

Basis for Qualified Opinion

Bank Balances

The statement of assets and liabilities as at 30 June 2018 reflects Kshs.41,698,560 in respect of bank balances. However, included in unrepresented cheques of Kshs.3,106,081 in the bank reconciliation statement are three (3) cheques amounting to Kshs.73,724 which are stale and which had not been reversed in the cash book as at 30 June 2018. In addition, the bank reconciliation statement reflected unrecorded receipt of Kshs.5,016 in the bank statement dating back to year 2016. It was not clear why the receipt had not been recorded in the cash book for that long. Further, included in the outstanding cheques of Kshs.3,106,081, are fifty four (54) cheques totaling Kshs.1,027,362 which had not cleared as at December, 2018. However, as the time of audit, February, 2019, the cheques had not been reversed in the cash book despite them being stale.

Consequently, the accuracy and completeness of bank balance of Kshs.41,698,560 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 – Kisauni 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. Receipts Analysis

According to the 2017/2018 approved budget estimates, the Fund expected to receive a total of Kshs.101,333,491 as transfers from the National Government Constituencies Development Fund Board and other receipts. However, according to the statement of receipts and payments, the Fund realized a total of Kshs.86,862,345 resulting to a shortfall of Kshs.14,471,146 or 14% of the targeted revenue.

Audit analysis of budgeted revenue compared to actual receipts revealed the following:

Receipt	Budget (Kshs.)	Actual (Kshs.)	Shortfall (Kshs)	% Shortfall
Transfers from the CDF Board	101,333,491	86,810,345	14,523,146	14%
Other receipts	0	52,000	-52,000	0%
Total	101,333,491	86,862,345	14,471,146	14%

From the above analysis, the Fund did not receive Kshs.14,523,146 or 14% out of the expected Kshs.101,333,491 transfers from the National Government Constituencies Development Fund Board. This may have affected implementation of planned projects for the benefit of the residents of Kisauni Constituency. There is need to do proper budgeting on priority basis.

1.2. Payment Analysis

The summary statement of appropriations reflect a final budget of Kshs.101,333,491 for the financial year 2017/2018 against total expenditure of Kshs.48,307,621 resulting to under absorption of Kshs.53,025,864 or 52% as summarized below:

Budget line	Final Budget Kshs.	Expenditure Kshs.	Unspent Balance Kshs.	% of Utilization
Compensation of Employees	2,620,295	2,000,082	620,213	76%
Use of goods and services	5,723,525	4,357,885	1,365,640	76%
Transfers to Other Government Units	43,687,783	20,696,000	22,991,783	47%

Other grants and transfers	41,129,474	21,218,659	19,910,815	51%
Acquisition of assets	495,387	34,995	460,392	7%
Other payments	7,677,027	0	7,677,027	0%
Total	101,333,491	48,307,621	53,025,870	48%

The Fund had a total under-expenditure of Kshs.53,025,870 representing 52% of the budget. Although the management has attributed the situation to delays in receiving funds from the National Government Constituencies Development Fund Board and transition from the former regime, this may affect delivery of goods and services to the residents of Kisauni 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.

Therefore, there is need to re-look at the budgeting mechanism with a view of focusing on priority areas with high impact in improving the standards of living for the citizens of Kisauni Constituency.

1.3. Project Implementation

According to the project implementation status report as at 30 June 2018, the following twenty seven (27) projects with a total budget of Kshs.51,022,911 were not implemented during the period under review:

No.	Project Name	Project Activity	Allocated Amount Kshs	Disbursed Amount Kshs	Implementation Status
1	Kiembeni Primary School	Construction of Administration block with 2no. Classrooms	5,000,000	5,000,000	Not started
2	Mdegerekani Primary School	Construction of 1no. Classrooms to Completion	1,100,000	1,100,000	Not started
3	Mtopanga Primary School	Re-Roofing of 2no. Classrooms	1,000,000	1,000,000	Not started
4	Majaoni Primary School	Construction of Toilet block with 2no. Classrooms -at Kshs.1,000,000/- and Kshs.3,000,000/= respectively	4,000,000	4,000,000	Not started
5	Baraka Primary School	Construction of Administration block with 2no. Classrooms	5,000,000	5,000,000	Not started
6	Kashani Secondary School	Equipping of Laboratories –	2,000,000	2,000,000	Not started
7	Marimani Secondary School	Construction of Administration block with 2no. Classrooms	8,000,000	8,000,000	Not started
8	Condordia Secondary School	Construction of 2no. Classrooms - (Storey building)	10,468,495	10,468,495	Not started
9	Shanzu Teacher Training College	Purchase of Generator- 165 kva 2,300,000.00 and 20pcs computers	3,500,000	3,500,000	Not started
10	Mtopanga Primary School	Purchase of 3seater Pupil's Desks, lockers and	180,000	180,000	Not Started
11	Kiembeni Primary School	Purchase of 3seater Pupil's Desks, lockers and	180,000	180,000	Not Started

No.	Project Name	Project Activity	Allocated Amount Kshs	Disbursed Amount Kshs	Implementation Status
12	Digirikani Primary School	Purchase of 3seater Pupil's Desks, lockers and	120,000	120,000	Not Started
13	Majaoni Primary School	Purchase of 3seater Pupil's Desks, lockers and	140,000	140,000	Not Started
14	Baraka Primary School	Purchase of 3seater Pupil's Desks, lockers and	180,000	180,000	Not Started
15	Bedzimba Primary School	Purchase of 3seater Pupil's Desks, lockers and	264,000	264,000	Not Started
16	Utange Primary School	Purchase of 3seater Pupil's Desks, lockers and	140,000	140,000	Not Started
17	Concordia Primary School	Purchase of 3seater Pupil's Desks, lockers and	140,000	140,000	Not Started
18	Kashani Primary School	Purchase of 3seater Pupil's Desks, lockers and	180,000	180,000	Not Started
19	Mdegerekani Primary School	Purchase of 3seater Pupil's Desks, lockers and	140,000	140,000	Not Started
20	Marimani Primary School	Purchase of 3seater Pupil's Desks, lockers and	140,000	140,000	Not Started
21	Marimani Secondary School	Purchase of Locker & Chair	198,000	198,000	Not Started
22	Kashani Secondary School	Purchase of Locker & Chair	384,000	384,000	Not Started
23	Condordia Secondary School	Purchase of Locker & Chair	198,000	198,000	Not Started
24	Hassan Joho Sec School	Purchase of Locker & Chair	198,000	198,000	Not Started
25	CIH - Constituency Innovation Hub	To mainstream ICT at the grassroots level and provide the youth with a platform for digital opportunities including online jobs.	4,677,028	4,677,028	Not Started
26	NG-CDF Office	Purchase of Furniture- 3 office tables - 250,000/= & 3 chairs 3 desktops and 2 Laptops 245,386.58/=	495,388	495,389	Not Started
27	Strategic plan	Preparation of Constituency Strategic Plan	3,000,000	3,000,000	Not Started
Total			51,022,911	51,022,911	

Although fifteen (15) projects had been implemented by the time of audit in the month of January, 2019, delayed implementation of projects denies residents of Kisauni Constituency the 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 three (3) projects with total allocation of Kshs.19,468,465 during the month of January 2019 indicated the following state of affairs:

No	Project Verified	Project Activity	Amount Kshs.	Observation
1	Baraka Voroni Primary	Construction of 2 classrooms	5,000,000	Concrete slab was cast around the building instead of pre cast concrete as per the bills of quantities. However, there was no evidence of contract variation.
2	Concordia Secondary school	Construction of 2 storey classrooms	10,468,495	Although the site is adjacent to classrooms, the construction site was not protected with iron sheets thus posing danger to students and other school compound users.
3	Majaoni Primary School	Construction of toilets	4,000,000	Although the project is complete and in use, cracks were noted on the walls. This is evidence of poor workmanship.
Total			19,468,495	

The above observations are indication of poor workmanship which casts doubt on project supervision and lack of 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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources / 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 in Closed Projects

Annex 4 to the financial statements reflects bank balances in thirty five (35) project management committees' bank accounts with a balance of Kshs.27,275,671.30 as at 30 June 2018. The annex includes balances for eleven (11) closed projects totaling of Kshs.1,468,091 and which had not been refunded to the Fund's main account. 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 as detailed below:

No.	PMC	Balance as at 30 June 2018 (Kshs.)
1	Junda Primary School	1,089,297
2	Kiembeni Basketball court	4,324
3	Kisauni CDF Junda Borehole	3,100
4	Kisauni CDF Magogoni Borehole	1,626
5	Kisauni CDF Mjambere Borehole	4,187
6	Kisauni CDF Mtopanga Borehole	18,610

7	Junda Dispensary	61,985
8	Maunguja Primary School	100
9	Maunguja Youth Polytechnic	688
10	Mjambere / Junda Drainage	283,925
11	Shimo La Tewa Primary School	249
	Total	1,468,091

Although, the management has attributed this to inability to trace all the bank signatories of the closed projects, the management was in breach of the laws.

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, 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 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 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 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 – Kisauni Constituency 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 National Government Constituencies Development Fund – Kisauni 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 – Kisauni 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

10 April 2019