

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund- Kitui Central Constituency set out on pages 10 to 29, which comprise 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- Kitui Central Constituency as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act no.30 of 2015.

Basis for Qualified Opinion

1.0 Cash and cash equivalents

1.1 Stale Cheques

The statement of assets and liabilities for the year ended 30 June 2018 reflects Kshs.7,850,817 being cash and cash equivalents as at 30 June 2018. However, the respective bank reconciliation statement showed that excluded in the Kshs.7,850,817 balance are stale cheques totaling to Kshs.238,000 which had not been written back to the cash book or replaced as at 30 June 2018.

In the circumstances, the reported cash and cash equivalents balance of Kshs.7,850,817 as at 30 June 2018 is understated by Kshs.238,000.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Kitui Central 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 matters 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 Matter

1.0 Budgetary Controls and Performance

1.1 Receipts

The combined summary statement of appropriation recurrent and development reflects approved budgeted receipts of Kshs.98,822,630 and actual receipts of Kshs.87,443,320 resulting to an unrealized revenue of Kshs.11,379,310 or 12% for the year ended 30 June 2018.

Overall, the Fund failed to actualize its budget by Kshs.11,379,310 or 12% an indication that some of the programmes and activities that had been planned were not implemented. There is need therefore for Constituency Development Fund management to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the citizens of Kitui Central Constituency.

In the circumstances the residents of the Constituency did not get expected services equivalent to the Kshs. 11,379,310 being unrealized exchequer releases from the board for the year ended 30 June 2018.

1.2 Expenditure

The combined summary statement of appropriation - recurrent and development reflects approved expenditure budget of Kshs.98,822,630 and actual expenditure of Kshs.79,592,502 resulting to under absorption of Kshs.19,230,128 or 19 % as detailed below:

Expenditure Analysis

Item	Final Budget (Kshs)	Actual Kshs)	Under Expenditure (Kshs)	% Under Expenditure
Compensation of employees	2,871,000	1,996,672	874,328	30
Use of goods and services	9,599,044	9,316,124	282,920	3
Transfers to other Government entities	34,250,000	32,100,000	2,150,000	6
Acquisition of assets	5,500,000	0.00	5,500,000	100
Other grants and transfer	46,602,586	36,179,706	10,422,880	22
Total	98,822,630	79,592,502	19,230,128	19

In overall, the Fund under spent its budget by Kshs. 19,230,128 of the total budget allocation. The funds could have been allocated to other deserving areas that would have improved delivery of goods and services to the residents of Kitui Central Constituency. There is need therefore for the management to re-look at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the citizens of Kitui Central.

In the circumstances the residents of Kitui Central Constituency did not get expected services equivalent to the Kshs.19,230,128 under expenditure for the year ended 30 June 2018.

2.0 Project Implementation Status

During the year under review, the Fund disbursed Kshs.38,522,206 to twenty-eight (28) projects within the constituency. However, twenty-six projects worth Kshs.37,322,206 were completed and in use while two (2) projects, amounting to Kshs.1,200,000 were ongoing as at the end of the financial year under review as analyzed below:

Sector	Project Status	Amount Allocated (Kshs)	Amount Disbursed (Kshs)	No. of Projects
Education	Completed	32,100,000	32,100,000	19
	Ongoing			0
	Not Started			0
Emergency	Completed	1,750,000	1,750,000	4

Sector	Project Status	Amount Allocated (Kshs)	Amount Disbursed (Kshs)	No. of Projects
	Ongoing			
	Not Started			
Security	Completed			0
	Ongoing	1,200,000	1,200,000	2
	Not Started			
Environment	Completed	1,736,206	1,736,206	2
	Ongoing			
	Not Started			
Sports	Completed	1,736,000	1,736,000	1
	Ongoing			
	Not Started			
	Total	38,522,206	38,522,206	28

In view of the foregoing, the constituents did not get the expected services equivalent to the two (2) ongoing projects totaling to Kshs.1,200,000 for the year ended 30 June 2018. This is an indication of inappropriate project implementation mechanism. Therefore, there is need for the Constituency Development Fund management to review its project planning mechanism with a view to prioritizing those projects which will be implemented during the financial year resulting to higher impact in improving service delivery to the citizen of Kitui Central Constituency.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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 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 Strategic Plan

Note 3 to the financial statements reflects Kshs.9,316,124 in respect to use of goods and services which includes Kshs.2,992,480 spent on strategic plan. However, procurement documents availed for audit review revealed that the procurement method applied was use of quotation which is against public procurement and disposal (Amendment) regulation 2013 under threshold matric C which requires the entity to use request for quotations up to an expenditure of Kshs.500,000.

In the circumstance, the Fund is in breach of the law.

2.0 Training allowances

Note 3 to the financial statements reflects Kshs.600,000 in respect to training expenses which includes Kshs.400,500 paid to a resort in Kilifi for provision of accommodation to fifteen participants for a three days training. However, the resort was not in the list of the Fund's prequalified firms to offer accommodation facilities contrary to Section 95(3) of public procurement and asset disposal Act, 2015 which requires entities to invite tenders from only approved firms which are pre-qualified.

In the circumstance, the Fund is 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 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 procedures performed, except for the matter 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 governance were not effective.

Basis for conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSA 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance was 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 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's 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 money is 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 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 review 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 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.

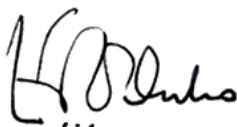
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 continue offering 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 offering services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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

12 April 2019