

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND (NG-CDF) –KITUI RURAL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituency Development Fund (NG-CDF) – Kitui Rural Constituency set out on pages 6 to 33 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.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund (NG-CDF) – Kitui Rural 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 do not comply with National Government Constituency Development Fund Act, 2015.

Basis for Adverse Opinion

1.0 Bursary Funds

Note 7 to the financial statements reflects Kshs.28,852,000 in respect to other grants and other payments which includes Kshs.18,360,000 and Kshs.6,403,000 in respect to bursaries to secondary schools and tertiary institutions respectively both totaling to Kshs.24,763,000 and which have not been acknowledged as having been received by the recipient institutions. In addition, records relating to how the beneficiaries were identified, the vetting criteria, the list of total and successful applicants were not availed for audit review.

In the circumstances, it has not possible to ascertain whether Kshs.24,763,000 in respect to bursaries for the year ended 30 June 2018 was issued for the intended purpose.

2.0 Cash and Cash Equivalents

2.1 Stale Cheques

Note 10A to the financial statements reflects Kshs.15,477,276 in respect to bank balances as at 30 June 2018. However, the respective bank reconciliation statement reflects

Kshs.5,072,664 in respect to unpresented cheques out of which Kshs.2,057,322 had become stale as at the time of this audit in February 2019 but the same had not been replaced or reversed in the cash book thereby understating the cashbook balance as at 30 June 2018 by the same amount.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.15,477,276 reflected in the financial statements as at 30 June 2018 could not be confirmed.

2.2 Lost Cash

Note 10A to the financial statements reflects Kshs. 15,477,276 in respect to bank balances as at 30 June 2018. However, the bank reconciliation statements reflected Kshs.1,025,231 in respect to payments in the bank but not recorded in the cash book as at 30 June 2018 which included Kshs.970,000 in respect to a payment made to a firm by the bank in March 2017 through forged signatures. Although the matter was reported to the police, the funds had not been recovered as at the time of the audit in February 2019.

In the circumstances, the recoverability of the Kshs.970,000 cash loss as at 30 June 2018 could not be ascertained.

3.0 Committee Expenses

Note 5 to the financial statements reflect Kshs.5,737,000 in respect to use of goods and services which include Kshs.3,547,000 in respect to committee expenses which further included Kshs.1,961,000 expenditure and whose supporting documents including attendance registers and minutes of the committee meetings were not availed for audit review.

In addition, included in the Kshs.3,547,000 is Kshs.197,600 paid to a firm whose justification for payments was not availed for audit review.

In the circumstances, the validity and propriety of Kshs.1,961,000 and Kshs.197,600 both totaling Kshs.2,158,600 in respect to committee expenses as at 30 June 2018 could not be confirmed.

4.0 Unsupported Fuel Expenditure

Note 5 to the financial statements reflects Kshs.5,737,000 in respect to use of goods and services which include Kshs.310,300 in respect to fuel, oil and lubricants and which further includes Kshs.150,000 paid to a firm for supply of fuel. However, documents to show how the fuel was consumed including work tickets, detail orders and fuel register were not availed for audit review.

In the circumstances, the propriety of Kshs.310,300 in respect to fuel, oil and lubricants could not be confirmed.

5.0 Other Grants and other Payments

Note 7 to the financial statements reflects Kshs.28,852,000 in respect to other grants and other payments which includes Kshs.1,929,000 in respect to mock and continuous assessment tests (CAT) expenses which was incurred to facilitate Kitui Rural primary schools head teachers to attend Kenya Primary Schools head teachers Association meetings in Mombasa. Included in Kshs.1,929,000 were two payments of Kshs.555,000 and Kshs.674,000 both totaling to Kshs.1,229,000 which were paid by the Fund manager through imprest without evidence that the project management committee was involved contrary to Section 36 of NG-CDF Act 2015 which states that Projects under the Act shall be implemented by the Project Management Committees (PMC).

Further, included in Kshs.1,929,000 was Kshs.406,000 said to have been spent on servicing and fueling of the buses hired during the meeting in Mombasa whose supporting documents including work tickets were not availed for audit review.

In the circumstances, the accuracy and value for money for the Kshs.1,929,000 in respect to Mocks and CAT could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kitui Rural NG - CDF 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.

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 Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matters

1.0 Budget Control and Performance

1.1 Receipt Analysis

The Fund's summary statement of appropriation: recurrent and development combined for the year ended 30 June 2018 reflects an approved receipt budget of Kshs.113,804,275 and actual receipts of Kshs.58,519,801 resulting to budget shortfall of Kshs.55,284,474.

Overall, the Fund failed to actualize its budget by Kshs.55,284,474 or 48.6% 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 Rural Constituency.

1.2 Expenditure Analysis

The statement of appropriation: recurrent and development combined for the year ended 30 June 2018 reflects a budgeted expenditure of Kshs.113,804,274 and actual expenditure of Kshs.43,042,525 resulting in to an under-expenditure of Kshs.70,761,749 (62%) on four (4) items as shown below:

Items	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	% under
Compensation of employees	1,420,760	1,227,459	193,301	14%
Use of goods and services	8,104,385	5,737,000	2,367,385	29%
Transfers to other Government units	39,862,034	6,031,034	33,831,000	85%
Other grants and transfers	64,417,095	30,047,032	34,370,063	53%
Total	113,804,274	43,042,525	70,761,749	62%

The under-spending of the budget by Kshs.70,761,749 reflected equivalent services expected and not delivered to the residents of Kitui Rural constituency. This is an indicator of improper budget planning process. There is need therefore for the management to relook at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the residents of Kitui Rural Constituency.

2.0 Other Payments

Note 9 to the financial statements reflects Kshs.1,195,032 in respect to other payments which was meant for developing a five year (2018-2022) strategic plan for Kitui Rural Constituency Development Fund. The contract for developing the strategic plan was signed on 25 May 2018 between the Fund and a firm at a contract sum of Kshs.2,987,580 and a contract period of 20 working days. The Kshs.1,195,032 was paid to the firm on 6 June 2018 in accordance with the contract which stipulated that 40% of the contract price to be paid after the inception report. However, as at the time of audit in February 2019, the strategic plan had not been developed almost seven (7) months after the expiry of the contract period. No explanation was given for the delay.

In the circumstances, it has not been possible to establish whether the Fund will get value for money for the Kshs.1,195,032 paid for developing a strategic plan.

3.0 Project Implementation Status Report

Note 6 and 7 to the financial statements for the year under review reflects transfers to other Government entities and other grants and other payments of Kshs.6,031,034 and Kshs.28,852,000 respectively both totaling to Kshs.34,883,034 which is earmarked to implement projects. However, it has not been possible to ascertain the status of the projects worth Kshs.34,883,034 as important details such as location of projects, total funds allocated per project, funds disbursed, date of completion and project status were not produced for audit verifications.

In the circumstances, it has not been possible to ascertain the implementation status of projects worth Kshs.34,883,034 for the year ended 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Project Management Committee (PMC) Balances

Note 6 and 7 to the financial statements reflects Kshs.6,031,034 and Kshs.28,852,000 in respect to transfer to other government units and other grants and transfers both totaling to Kshs.34,883,034 and which was transferred to various projects implementation committees (PMC) to implement various projects in the Constituency. Although the respective project's supporting documents were not availed for audit review, a physical verification of the projects done on eight (8) projects revealed that six (6) of them were incomplete. However, the Fund did not include any unutilized funds in respect to these projects in the financial statements as Project Management Committee (PMC) bank balances.

In the circumstances, it was not possible to ascertain the amount of cash held by the various PMC in respect to the ongoing and not started projects.

2.0 Presentation of the Financial Statements

The financial statements for the year under review did not include a separate summary statement of appropriation for recurrent and development and a budget execution by programmes and sub- programmes. This is contrary to the Public Sector Accounting Standards Board (PSASB) which stipulates that these statements should be included in the financial statements for any National Government entity. Further, the PSASB stipulate that the Fund should include a statement of assets and liabilities and not the statement of assets as reflected in the financial statements for the year under review. In addition, the Board stipulates that the head of finance should indicate his/her Institute of Certified Public Accountant (ICPAK) membership number in the financial statements. However, this membership number was not included in the financial statements for the year ended 30 June 2018.

In the circumstances, the presentation of the financial statements for the year under review was not in accordance with the recommended PSASB format.

3.0 Progress on Follow up of Auditors Recommendations

The financial statements for the year under review at Page 32 and 33 reflects a progress on follow up of Auditors recommendations showing that all the issues/observations have been resolved. However, this progress on follow up of Auditors recommendations is not correct as the issues reflected therein do not relate to any of the previous Auditor-General's reports.

In the circumstances, the accuracy of the information contained in the progress on follow up of Auditor recommendations included in the financial statements for the year ended 30 June 2018 could not be ascertained.

4.0 Transfer to other Government Entities

Note 6 to the financial statements reflect Kshs.6,031,034 in respect to transfer to government entities which comprised of Kshs.5,331,034 and Kshs.700,000 transferred to primary schools and secondary schools respectively.

A physical verification carried out in the month of February 2019, revealed anomalies on six (6) projects worth Kshs.3,931,034 as shown below;

S.No	Project Name	Project Activities	Approved allocation (Kshs)	Amount disbursed (Kshs)	Status	Audit observations
1	Itooma Primary School	Construction of class-room to completion	500,000	500,000	On-going	<ul style="list-style-type: none"> plastering, floor, windows and door are not done Bank statement not provided
2	Nzambia Primary School	Construction of 2 class-room to completion	731,034	731,034	On-going	<ul style="list-style-type: none"> Fully paid but Floor, plastering, painting windows and doors not complete Bank statement not provided.
3	Kalulini Primary school	Construction of 1 class-room to completion	700,000	700,000	Complete	Project file and bank statements were not availed for audit review
4	Mavindini Secondary school	completion of two classrooms and an office block	700,000	700,000	Complete	<ul style="list-style-type: none"> Evidence to show how a firm was identified to carry out the works of fabrication of Doors, windows and grills for Kshs.134,000 and , requests for quotations, the evaluation and contract award were

S.No	Project Name	Project Activities	Approved allocation (Kshs)	Amount disbursed (Kshs)	Status	Audit observations
						<p>not availed for audit review.</p> <ul style="list-style-type: none"> Material worth Kshs.93,190 for flooring, plastering of walls, piping and electrical wiring. However, office block and classrooms had not been painted, the plastering of wall and floors was on- going.
5	Katwala Secondary school	Emergency expenditure to reconstruct a burnt down dormitory and purchase of metallic boxes for students	1,000,000	1,000,000	Complete	<ul style="list-style-type: none"> Details on how the contractor was identified, payment vouchers and bank statements availed for audit review. The boxes were single sourced at a cost of Kshs.200,000 and procure by the Fund instead of the PMC
6	Kwa Vonza AP line	Construction of 3 AP staff house	300,000	300,000	Complete	<ul style="list-style-type: none"> The amount was not in the budget of 2017/2018. The project was not labelled as required by NG- CDF regulations 2016 Section 11(1)
	Total		3,931,034	3,931,034		

In the circumstances, it has not been possible to confirm whether value for money for the Kshs.3,9,31,034 was achieved on the six (6) projects.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

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 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 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 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 Fund 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 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 April 2019