

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUI SOUTH 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 South Constituency set out on pages 7 to 22, which comprise statement of assets as at 30 June 2018 and the statement of receipts and payments, statement of cash flows and summary statement of appropriation 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- Kitui South 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, 2015.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalents

1.1 Stale Cheques

The statement of assets for the year under review reflects Kshs.91,462,468 as cash and cash equivalents as at 30 June, 2018. However, included in the balance are stale cheques totaling to Kshs.590,660 which has not been reversed in the cash book or replaced as at 30 June 2018.

In the circumstances, the reported cash and cash equivalents balance of Kshs.91,462,468 as at 30 June 2018 is understated by the Kshs.590,660 stale cheques.

1.2 Idle Bank Balance

Note 10A reflects a cash and cash equivalent balance of Kshs.91,462,468 as at 30 June, 2018 which include Kshs.6,693,227 held in a Bank since 25 November 2015. Although management explained that the funds were held due to court case that frozen

the account, the respective documents including the current position of the court case have not been availed for audit review. Further, the respective bank reconciliation statement was not provided for audit review.

In the circumstance, it has not been possible to ascertain the validity and accuracy of the Kshs.6,693,227 bank balance and the residents of Kitui South Constituency did not receive services equivalent to the withheld bank balance.

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

1.1 Receipts

The combined summary statement of appropriation reflects approved budgeted receipts of Kshs.208,129,559 and actual receipts of Kshs.148,245,075 resulting to an unrealized revenue from the exchequer of Kshs.59,884,484 or 29% for the year ended 30 June, 2018.

Overall, the Fund failed to actualize its budget by Kshs.59,884,484 or 29% 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 South Constituency.

In the circumstances the residents of the Constituency did not get expected services equivalent to the Kshs.59,884,484 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.208,129,559 against actual expenditure of Kshs.56,782,607 resulting to under absorption of Kshs.151,346,952 or 73 % as detailed below:

Expenditure Analysis

Item	Final Budget (Kshs)	Actual (Kshs)	Under Expenditure (Kshs.)	% Under Expenditure
Compensation of employees	3,700,000	1,347,563	2,352,437	64%
Use of goods and services	12,612,931	7,772,900	4,840,031	38%
Transfers to other Government entities	107,191,939	24,400,000	82,791,939	77%
Other Grants and transfers	72,947,662	18,622,619	54,325,043	74%
Acquisition of Assets	3,000,000	3,000,000	0	0%
Other payments	8,677,027	1,639,525	7,037,502	81%
Total	208,129,559	56,782,607	151,346,952	73

In overall, the Fund under spent its budget by Kshs.151,346,952 or 73% 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 South 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 South.

In the circumstances the residents of Kitui South Constituency did not get expected services equivalent to the Kshs.151,346,952 under expenditure for the year ended 30 June 2018.

2.0 Project Implementation Status

During the year under review, the Fund disbursed Kshs.47,622,619 to thirty-four (34) projects within the constituency. However, six (6) projects, amounting to Kshs.9,100,000 for the year ended 30 June 2018 were ongoing as analyzed below:

Sector	Project Status	Amount Allocated (Kshs.)	Amount Disbursed (Kshs.)	No. of Projects
Education	Completed	19,100,000	19,100,000	22
	Ongoing	5,300,000	5,300,000	3
	Not started			
	Sub Total	24,400,000	24,400,000	25

Security	Completed	2,800,000	2,800,000	4
	Ongoing	800,000	800,000	2
	Not started			
	Sub Total	3,600,000	3,600,000	6
Others	Completed	1,600,000	1,600,000	1
	Ongoing	3,000,000	3,000,000	1
	Not started			
	Sub Total	4,600,000	4,600,000	2
Bursary	Completed	15,022,619	15,022,619	1
	Ongoing			
	Not started			
	Sub Total	15,022,619	15,022,619	1
	Totals	47,622,619	47,622,619	34

In view of the foregoing, the constituents did not get the expected services equivalent to the six (6) ongoing all totaling to Kshs.9,100,000 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 South Constituency.

3.0 Project Inspection Status

The following twenty-seven (27) projects were verified during the audit assignment and only twenty-three (23) projects costing Kshs.20,800,000 has been completed, three (3) projects costing Kshs.7,950,000 were on going and one (1) project costing Kshs.400,000 has not started.

Sector	Project Status	Amount Allocated (Kshs)	Amount Disbursed (Kshs)	No. of Project
Education	Completed	9,500,000	9,500,000	14
	Ongoing	1,000,000	950,000	1
Tertiary	Completed	6,500,000	6,500,000	3
	Ongoing	4,000,000	4,000,000	1
Others	Completed	1,600,000	1,600,000	1
	Ongoing	3,000,000	3,000,000	1
Security	Completed	3,200,000	3,200,000	5
	Not Started	400,000	400,000	1
Total		29,200,000	29,150,000	27

In the circumstances, the residents of Kitui South constituency did not get services equivalent to Kshs.400,000 fund disbursed for project which was not implemented 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, 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 public resources have been applied lawfully and in an effective way.

Basis for Conclusion

1. Management of Motor Cycles

Note 7 to the financial statements reflects Kshs.3,600,000 in respect to security which includes Kshs.1,600,000 spent in procurement of sixteen (16) motor cycles which were issued to the chiefs to hand over to the leaders of Nyumba Kumi to enhance security in the constituency. However, information available indicate that all the motor riders did not have a valid driving license contrary to the traffic Act Chapter 403 Section 103B (5) which stipulates that a person shall not ride a motor cycle unless that person has a valid driving license.

In the circumstance, the management was in breach of the law.

2. Stalled Construction of Women Hostel

Note 6 to the financial statements reflects Kshs.24,400,000 in respect to transfer to other government entities which includes Kshs.10,500,000 disbursed to Kenya Medical Training College- Mutomo for implementation of four (4) projects as follows;

	Item	Amount (Kshs.)
1	Construction of women hostel	4,000,000
2	Construction of drainage and sewerage system	3,000,000
3	Construction of fence with concrete poles fixed with barbed wire and chain link	2,000,000
4	Construction of Masonry tank	1,500,000
	Total	10,500,000

However, under clause 4 of the signed contract between the contractor and the Fund for the construction of the above women hostel worth Kshs.4,000,000, the work was to be completed within three months with effect from 4 May 2018 to 4 August 2018. However, physical verification done in the month of January 2019 revealed that the project has not been completed as doors, windows, ceiling, painting and floor were still not done. This is almost five (5) months after the completion date and the contractor is not on site.

In the circumstance, it is not clear when the project will be completed and if the citizens of Kitui South Constituency will get value for money of Kshs.4,000,000 the contract and the value for money of Kshs.4,000,000 spent on the hostel.

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 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

01 April 2019