

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the financial statements of National Government Constituencies Development Fund - Kitutu Chache North Constituency set out on pages 10 to 31, 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 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 the National Government Constituencies Development Fund - Kitutu Chache North 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 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Summary Statement of Appropriation

Included in the summary statement of appropriation-recurrent and development combined for the year ended 30 June 2018 are adjustments of Kshs.34,208,696 for both receipts and payments, respectively. The adjustments are in respect of payments for compensation of employees Kshs.241,667, use of goods and services Kshs.824,195, transfers to other government units Kshs.14,220,688, other grants and transfers Kshs.18,422,146 and other payments Kshs.500,000. However, detailed schedule of the projects and programmes in the approved code list in the prior year to be funded was not provided for audit.

In the circumstances, the accuracy and completeness of the statement of appropriation-recurrent and development combined for the year ended 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 the National Government Constituencies Development Fund - Kitutu Chache North 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 qualified 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 and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no key audit matters to communicate in my report.

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Implementation of Devolved Projects

1.1 Implementation of Water Projects

Included in other grants and transfers expenditure of Kshs.35,816,592 is an amount of Kshs.5,104,975 which was paid for water projects. Provision of water is a function devolved to the County Government under the Constitution of Kenya, 2010 Fourth Schedule on distribution of functions between national and county governments.

Although the management has indicated and produced evidence that these projects were in the approved code list for 2015/2016 financial year, there was no evidence that management complied with section 26 (1) of the National Government Constituencies Development Fund Act, 2015 during the 2017/2018 financial year. The section stipulates that a constituency with unspent funds at the end of the financial year shall submit new proposals to the NGCDF Board for approval in accordance with section 31 of the Act.

In the circumstances, the regularity and value for money of the expenditure of Kshs.5,104,975 incurred on water projects could not be ascertained.

1.2 Implementation of Road Projects

Included in other grants and transfers of Kshs.35,816,592 is an amount of Kshs.200,000 which was paid for roads projects. Maintenance of minor roads is similarly a devolved function to the County Government under the Constitution of Kenya, 2010 Fourth Schedule.

Although the management has indicated and produced evidence that these projects were in the approved code list for 2015/2016 financial year, there was no evidence that management complied with section 26 (1) of the National Government Constituencies Development Fund Act, 2015 during the 2017/2018 financial year. Therefore, payment of Kshs.200,000 for the road projects was irregular.

2. Emergency Project

2.1 Renovation of Riragia Primary School

Included also in other grants and transfers of expenditure Kshs.35,816,592 are payments totalling Kshs.5,246,697 for emergency projects. The latter in turn include a payment of Kshs.420,000 for renovation of classrooms at Riragia Primary School. There was no proof of emergency and urgency in the renovation of the classrooms and the project did not therefore meet the criteria for emergency set out under section 8(3) of National Government Constituencies Development Fund Act 2015. Consequently, the regularity of the expenditure of Kshs.420,000 incurred could not be confirmed.

3. Budget Performance Analysis

A comparison of budgeted and actual expenditure revealed material under-utilization of funds as detailed below:

Expenditure Component	Final Approved Budget (Kshs.)	Actual Expenditure (Kshs)	Under-expenditure (Kshs.)	Under-utilization in %
Compensation of Employees	1,427,817	1,058,947	368,870	26 %
Transfers to Other Government Units	51,620,688	2,120,000	49,500,688	96 %
Other Grants and Transfers	52,342,533	35,816,592	16,525,941	32 %
Other Payments	5,177,027	0	5,177,027	100 %

The underutilization of the allocated funds negatively affected the achievements of some of the core objectives of the Fund and denied the constituents efficient and effective service delivery.

4. Project Verification Status

Twelve projects for which disbursements totalling Kshs.7,652,000 had been made were verified and the observations are as follows:

Project Name	Budget (Kshs)	Activity	Status
Isechi D.O office	400,000	Completion of assistant county commissioners office (roofing, plastering, fixing doors, windows, flooring and painting)	Only paint works not yet done
Kionganyo Primary	400,000	Renovating of one leaking classroom (reroofing and plastering)	Three classrooms are complete and in use Not branded.
Sensi Primary school	300,000	Renovating of one leaking classroom (reroofing and plastering)	Two classrooms were renovated and painted Project is complete Not branded.
Nyabworoba Primary School	420,000	Construction of toilets that had collapsed due to heavy rains	Complete but not branded.

Project Name	Budget (Kshs)	Activity	Status
			The facility is in use
Monyerero primary	300,000	Completion of one classroom (roofing, fixing doors , windows and plastering)	Three classrooms under construction. Project is ongoing
Kionganyo Primary	400,000	Renovating of one leaking classroom (reroofing and plastering)	Three classrooms are complete and in use Not branded.
Nyamokenye Primary School	250,000	Construction of toilets that had collapsed due to heavy rains	Complete but not branded. The facility is in use
Engotogoti Primary School	415,000	Construction of toilets that had collapsed due to heavy rains	Complete but not branded. The facility is in use
Gesurura Primary School	250,000	Construction of toilets that had collapsed due to heavy rains	Complete but not branded. The facility is in use
Isecha Water Project	4,247,000	Erection of tanks, Purchase of pipes and digging trenches and laying of water distribution for Isecha water project.	The facility is complete and in use
Nyamokomba Water Project	208,000	Completion of pump house, plastering, flooring and roofing.	Complete and is in use
Nyakoora Water Project	62,000	Completion of pump house, plastering and roofing.	Complete and is in use
Total	7,652,000		

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 matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public

Resources sections of my report, I confirm that, nothing else 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 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 Financial Reporting 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 ability of National Government Constituencies Development Fund - Kitutu Chache North Constituency 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 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 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:

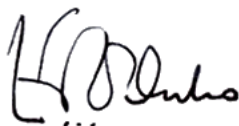
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 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 sustaining 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 - Kitutu Chache North 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

18 June 2019