

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KITUTU CHACHE SOUTH 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 – Kitutu Chache South Constituency set out on pages 9 to 30, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, 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 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 – Kitutu Chache South 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.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.14,647,780, which was held in the Co-operative Bank of Kenya Account No. 01141423185500 as at 30 June 2018. The bank reconciliation statement for the account as at 30 June 2018 reflects unpresented cheques totalling Kshs.17,749,461, out of which an amount of Kshs.274,252 comprise stale cheques some dating back to 20 December 2016. Further, a payment of Kshs.20,000 was not captured in the cash book. Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.14,647,780 could not be confirmed.

2. Summary Statement of Appropriation

Included in the summary statement of appropriation is an adjustment figure of Kshs.28,835,340 for both receipts and payments. The adjustments in respect of payments comprises compensation of employees - Kshs.274,129, use of goods and services - Kshs.1,308,345, transfers to other government units - Kshs.22,450,000, other grants and transfers - Kshs.4,302,866 and other payments – Kshs.500,000. However, detailed schedule of the projects in the approved code list in the prior financial year to be financed by the adjusted amount was not provided for audit. Consequently, the accuracy and validity of the adjustments could not be confirmed.

In addition, the summary statement of appropriation reflects total payments of Kshs.46,893,076 which differs with the statement of receipts and payments figure of Kshs.46,913,422, leading to unreconciled difference of Kshs.20,346.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Kitutu Chache 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 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 other 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. Transfers to Health Institution

Included in transfers to other government units' expenditure of Kshs.14,750,000 is an amount of Kshs.500,000 which was paid in respect of transfers to health institutions which is a devolved function. The management had indicated that this project was in the approved code list for the financial year 2015/2016. However, no documentary evidence was provided to confirm that the unspent funds for the financial year ended 30 June 2016 were resubmitted for fresh approval by the NGCDF Board. In the circumstances, the regularity and validity of the expenditure of Kshs.500,000 could not be confirmed.

2. Projects Verification

An audit verification of twenty projects with disbursements amounting to Kshs.13,000,000 revealed that some were complete and in use, some were complete but not branded, while others were in progress and ongoing as indicated in the table below:

Project Name	Disbursement 2017/2018 - Kshs	Activity	Status	Observations
Jogoo Primary School	400,000	Completion of 3 classrooms: plastering, flooring and painting	Ongoing	4 classrooms renovated: plastering of walls -Painting not done -Not branded
Nyambere Primary School	500,000	Plastering of four classrooms	Complete	13 classrooms plastered, complete and in use Not labelled
Nyakongo Primary School	350,000	Completion of roofing of Administration block	Complete	Roofing done, project complete and in use. Not branded
Kanyimbo Primary School	400,000	Painting of 4 classrooms	Complete	Plastering done and painting. Project complete and in use Not branded
Nyabundo Primary School	400,000	Finishing of 1 classroom, plastering, fixing doors and windows	Complete	Project complete and in use. Labelled
Rera Primary School	200,000	Completion of one classroom roofing	Ongoing	Roofing of 2 classrooms done, plastering, flooring, doors and windows not done. Poor workmanship Not branded
Nyanchogochi Primary School	400,000	Completion of 3 classrooms :fixing doors and windows, plastering, flooring and painting	Ongoing	Doors and windows fixed, plastering and flooring done. Painting not done. Not branded.
Koere Primary School	400,000	Completion of 3 classrooms :fixing doors and windows ,plastering, flooring and painting	Complete	Project complete and in use. branded
Getembe Primary School	500,000	Renovation of one classroom ,reroofing ,plastering and fixing doors and windows	Ongoing	5 classroom renovated. Project is ongoing Not branded
Mariba Primary School	200,000	Construction of a new toilet to replace a collapsed one	Complete	Complete and in use Not branded
Masere Tea Centre	200,000	Reroofing of the leaking roof	Complete	Complete and in use Not branded
Itii Tea Buying Centre	250,000	Reroofing of the leaking roof	Complete	Complete and in use Not branded
Nyabundo DOK Primary School	200,000	Construction of a new toilet to replace a collapsed one	Complete	Complete and in use Not labeled
Kanyimbo Secondary School	400,000	Wiring, Plumbing and Painting of a Laboratory	Ongoing	Ongoing and in use Not branded
Nyatieko Secondary School	1,000,000	Payment of installment for bus purchased Reg. No: KCA 650 F	Ongoing	In use Not branded

Project Name	Disbursement 2017/2018 - Kshs	Activity	Status	Observations
St. Catherine Iranda Sec.	1,000,000	Payment of installment for bus purchased Reg. No: KCA 162 F	Ongoing	In use Not branded
St. Joseph Ongicha Secondary School	1,000,000	Payment of installment for bus purchased	Ongoing	In use Not branded
St. Patricks Mosocho Secondary School	2,000,000 500,000	Fixing doors and windows, flooring and Plastering Payment towards the purchase of school bus Reg No KCA 647 F	Ongoing	Partly in use Not branded In use
Getembe Secondary School	1,000,000	Payment of installment for bus purchased Reg No: KCA 651 F	Ongoing	Labelled and in use
St Lukes Kanunda Secondary School	1,000,000	Payment of installment for bus purchased	On going	The school bus Reg. no KCE 337 D In use Not branded
Ruga AP Line	200,000	Plumbing, piping and erection of two 10,000-liter water tanks to be used by security officer at the AP Line	Ongoing	Funds used for other purpose other than the intended one The facility is in use
Botori AP Line	500,000	Completion of AP units at Botori; roofing, Plastering, flooring, fixing doors and windows and painting	Ongoing	Incomplete The facility is in use
Total	13,000,000			

3. Budget Performance Analysis

According to the summary statement of appropriation Kitutu Chache South NG-CDF management had budgeted to receive from the NGCDF Board Kshs.115,645,685 but the actual receipts were Kshs.60,861,202. The management had also budgeted to spent Kshs.115,645,685 but the actual expenditure was Kshs.46,893,076 or 40.5%, resulting in an under expenditure of Kshs.68,752,609 or 59.5%.

The under-utilization of the budgeted provisions negatively affected the achievement of the core objectives of the Fund and, the efficiency and effectiveness of service delivery to the constituents.

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 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 overall 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 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 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 the National Government Constituencies Development Fund – Kitutu Chache South 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 ability of Fund 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 South 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