

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KURIA WEST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Kuria West Constituency set out on pages 10 to 38, 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 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 the National Government Constituencies Development Fund – Kuria West 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 Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Transfers from NGCDF Board**

The summary statement of appropriation reflects transfers from the NGCDF Board of Kshs.74,730,708 which differs with the amount of Kshs.74,353,447 reflected in the statement of receipts and payments, leading to unreconciled and unexplained variance of Kshs.377,261. Consequently, the accuracy and completeness of the transfers from NGCDF Board for the year ended 30 June 2018 could not be ascertained.

#### **2. Transfers to Other Government Entities**

The statement of receipts and payments reflects transfers to other government entities totalling Kshs.22,150,000. However, an amount of Kshs.11,550,000 which was paid on diverse dates to various Project Management Committee (PMCs) accounts was not adequately supported with complete expenditure returns including cashbooks, payment schedules, stores records, minutes of tender proceedings and report of inspection and acceptance committee approving payments for the projects executed.

Consequently, the validity, completeness and propriety of the expenditure of Kshs.11,550,000 in respect of disbursements made to the PMCs during the year ended 30 June 2018 to facilitate in implementation of various projects as factored in the approved budget could not confirmed.

### **3. Cash and Cash Equivalents**

Included in the cash and cash equivalents balance of Kshs.7,816,560 is an amount of Kshs.4,954,990 comprising un-presented cheques, some of which had become stale as of 30 June 2018. Consequently, the accuracy of the cash and cash equivalents balance of Kshs.7,816,560 as at 30 June 2018 could not be confirmed.

### **4. Project Management Committees' Bank Balances**

Disclosed in Annex 5 to the financial statements are Project Management Committees (PMC) bank balances totalling Kshs.4,346,342 as at 30 June 2018. However, relevant documents such as bank reconciliation statements, bank balances confirmation certificates, cash books and payment vouchers were not provided for audit review. Consequently, the accuracy and completeness of the PMC bank balances of Kshs.4,346,342 as at 30 June 2018 could not be confirmed.

### **5. Net Financial Position**

The statement of assets and liabilities as at 30 June 2018 reflects total financial assets of Kshs.7,816,560 and nil liabilities. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the statement of assets and liabilities erroneously shows at the bottom net liabilities instead of the net financial position of Kshs.7,816,560.

### **6. Unsupported Adjustments**

The summary statement of appropriation- recurrent and development as at 30 June 2018 reflects an original expenditure budget of Kshs.86,810,345 and adjustments totalling Kshs.42,704,846 bringing the total approved final expenditure budget to Kshs.129,515,191. However, the adjustments to the expenditure items in the budget were not supported with approved code list indicating the individual components to be funded in 2017/2018 financial year. Consequently, the validity and completeness of the adjustments could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Kuria West 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. Renovation of Maber District Commissioner Office

Included in the other grants and transfers expenditure of Kshs.37,294,000 is an amount of Kshs.800,000 which was paid for the renovation of Maber District Commissioner office incorporating fixing shatters, re-roofing, ceiling and paintings. Physical verification of the project revealed that the works including part of the ceiling and paintings were not done. Consequently, the regularity and value for money of the expenditure of Kshs.800,000 could not be confirmed.

### 2. Budget Performance Analysis

The summary statement of appropriation shows that the Kuria West NG-CDF management had budgeted to receive from the NGCDF Board Kshs.129,515,191. However, the actual receipts were Kshs.74,730,708, leading to a revenue deficit of Kshs.54,784,483.

The final expenditure budget was Kshs.129,515,191 while the actual expenditure was Kshs.66,914,148 and thus, resulting in a gross under-expenditure of Kshs.62,601,043 or 48%. The under-utilization of the approved budget negatively affected the achievement of some of the core objectives of the Fund and thereby, impacting negatively on the efficiency and effectiveness of service delivery to the constituents.

### 3. Project Verification

Twenty-six projects with disbursements amounting to Kshs.15,800,000 were physically verified and the observations made are as follows:

Payee	Activity	Amount Kshs.	Percentage of Completion	Observations
Tagare Primary School	Construction of classroom	500,000	52%	Classroom built and roofing done. Windows, doors, floor and plaster are yet to be done. Classroom is not in use.

<b>Payee</b>	<b>Activity</b>	<b>Amount Kshs.</b>	<b>Percentage of Completion</b>	<b>Observations</b>
Komasincha Primary School	Flooring, plastering, walling and roofing of 2 classrooms.	600,000	60%	Flooring, plastering and walling done. Project is yet to be completed. No activities on site.
Getonganya Primary School	Construction of a new classroom	500,000	45%	Classroom built and roofing done. Windows, doors, floor and plaster are yet to be done. Classroom is not in use.
Nyamosense Primary	Construction of one classroom	600,000	45%	Brick walling and roofing done. Windows, doors, floor and plaster are yet to be done.
Nyankore Secondary School	Construction of a laboratory	600,000	85%	Brick walling, roofing, windows, doors, floor and plastering done. Laboratory equipment are yet to be purchased.
Kurutiyange Primary School	Roofing of staff house	600,000	60%	Brick walling and roofing done. Doors, windows, plaster and floor are yet to be done. The colour of the iron sheets has faded off.
Ikerege Mixed Secondary School	Construction of a laboratory	600,000	55%	Walls done and lintel fixed. Windows, doors, roof and plaster are yet to be fixed.
St Mathias Nyanchabo Secondary School	Construction of staff houses	700,000	65%	Walling, lintel and roofing done. Windows, doors and plaster are yet to be done. Staff houses not yet completed.
St Anne Boarding Primary School	Walling of storey dormitory	900,000	10%	Project is not complete. Waling of the dormitory is ongoing.
Kubweye Primary School	Fixing lintel, roofing and plastering of teachers quarters	800,000	85%	Lintel, roofing and plastering done. Funds which were allocated for emergency (Kshs 400,000) were used for painting and other assorted finishes. The project is complete and in use.

<b>Payee</b>	<b>Activity</b>	<b>Amount Kshs.</b>	<b>Percentage of Completion</b>	<b>Observations</b>
Nyamaharaga PAG Primary School	Casting of the floor slabs of the second floor storey classrooms	800,000	45%	The classroom is incomplete. Floor slab is yet to be done. Project appears to have stalled as no work is ongoing.
Komorege Primary School	Construction of one classroom	600,000	45%	Brick walling, lintel, and roofing done. Windows, doors, plaster and flooring are yet to be done.
Boremagongo Primary School	Construction of one classroom	600,000	55%	Classroom joined to an existing classroom (three walls erected).
Kiburanga Primary School	Fixing of lintel, roofing and plastering of administration block	600,000	45%	Lintel and roofing done. Plastering of the administration block yet to be done. Windows, doors, painting and flooring are not done. Facility is yet to be put to the intended use.
Korogati Primary School	Roofing and plastering of the administration block	600,000	55%	Project is not complete. Roofing and plastering of the administration block is on-going.
Nyangoge Secondary School	Construction of a laboratory	800,000		Laboratory is yet to be constructed.
Chacha Moronge Sorore Secondary School	Roofing and plastering of the dormitory	600,000	45%	Roofing done while plastering, windows and doors are yet to be done. Dormitory is not in use.
Masaba Secondary School	Plastering , flooring, fixing of shutters and painting of two classrooms	550,000	90%	Visible cracks noted on the floor and the walls. Works are complete and the classrooms are in use.
Gwikonge Mixed Secondary School	Purchase of desks	400,000	100	Desk are purchased and are being used.
Komosoko Chief's Office	Renovation of Chief's Office	300,000	100	The renovations are complete and the office is in use.

<b>Payee</b>	<b>Activity</b>	<b>Amount Kshs.</b>	<b>Percentage of Completion</b>	<b>Observations</b>
Motemorabu Ap Camp	Construction of 3 units AP houses	650,000	70	The construction is complete and the houses are in use.
Mabera DCC Office	Renovation of DCC office.	800,000	80	Project file was not provided for audit review. Part of the work is not done but already paid for.
Mabera Resource Centre	Painting and wiring of resource centre	1,500,000	100	Complete and is in use.
Kombe Chief's Camp	Construction of office	600,000	70	Complete but not in use.
<b>Total</b>		<b>15,800,000</b>		

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 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 the 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 – Kuria West 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 noncompliance. 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 the 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 – Kuria West 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**

**08 July 2019**