

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – LAGDERA 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 - Lagdera Constituency set out on pages 6 to 24, which comprise the statement of financial 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. 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 -Lagdera 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. Transfer to Other Government Entities

Note 6 to the financial statements reflects Kshs.13,956,500 being transfer to other Government entities out of which Kshs.13,356,500 was allocated as grants to secondary school projects. Audit review of the expenditure and other supporting documents maintained at the Fund offices revealed that payments totaling to Kshs.2,500,160 was disbursed to Lagdera Secondary School Project Management Committee for the supply of 320 chairs and lockers for Modogashe Secondary, Modogashe Girls, Shanti Abak and Benane Secondary Schools. However, the following anomalies were noted:

- i. There was no signed agreement between project management committee and the contractor.
- ii. There was no evidence that the goods were inspected by the inspection committee.
- iii. The successful and unsuccessful bidders were not notified immediately after the award of the contract.

In the circumstances, the probity of the expenditure of Kshs.2,500,160 as at 30 June 2018 could not be confirmed.

2. Other Grants and Other Payments

2.1. Irregular Supply and Delivery of Sports Equipment

Included in the other grants and other payments figure of Kshs.28,983,214 under note 7 to the financial statements is an amount of Kshs.1,736,180 spent on sports equipment. Audit review of the expenditure and other supporting documents revealed that the Fund through Lagdera sports project management committees entered into a contract with a local company for the supply of sports equipment and kits for various schools amounting to Kshs.1,736,180. However, the following anomalies were noted:

- i. There was no signed agreement between project management committee and the contractor.
- ii. There were no official acknowledgements of the sports items delivered to various groups.
- iii. There was no inspection report from the inspection and acceptance committee to confirm the right items were delivered by the supplier.
- iv. The items were not labelled hence it was difficult to identify and confirm if it was the same items that were supplied by the contractor.

Consequently, the probity of the expenditure of Kshs.1,736,180 as at 30 June 2018 could not be ascertained.

2.2. Un-Accounted For Bursary Expenses

Included in the other grants and other payments figure of Kshs.28,983,214 under note 7 to the financial statements is an amount of Kshs.14,544,828 representing the funds that were allocated to the tertiary institutions' bursary transfer. However, a review of the expenditure revealed that bursaries worth Kshs.630,000 had no acknowledgement letters from the beneficiary institutions indicated to have been paid. In addition, it was further noted that there were no cheque dispatch register maintained for the period under review.

In the circumstances, the probity of the expenditure of Kshs.630,000 as at 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 National Government Constituencies Development Fund – Lagdera 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 of the current year under review. Except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that there were no Key Audit Matters to communicate in my report.

Other Matter

1. Budget Control and Performance

1.1 Budgetary Performance

A review of the statement of budget appropriation revealed that during the year under review, the Fund had an approved budget of Kshs.109,531,938, out of which an amount of Kshs.11,342,283 was unspent balance from the financial year 2016/2017. Budget utilization on receipts and expenditure for the financial year under review are as follows:

Item	Budget Kshs.	Actual Kshs.	Under-utilized Funds Kshs.	Actual % of Budget
Receipts	109,531,938	43,405,172	66,126,766	40%
Expenditure	109,531,938	46,510,073	63,021,865	42%

The above analysis reflects actual receipts of Kshs.43,405,172 against budgeted amount of Kshs.109,531,938 resulting in a short fall of Kshs.66,126,766 representing 60% of undisbursed funds from the National Government Constituencies Development Fund Board. Further, the Fund spent an amount of Kshs.46,510,073 representing 42% of the approved budget of Kshs.109,531,938.

1.2 Under Expenditure on Overall Budget

The Fund recorded an overall under expenditure of 43% during the year under review as follows:

Item	Approved Budget Kshs.	Actual Expenditure Kshs.	Under Expenditure Kshs.	% of Under-Expenditure
Compensation of employees	2,483,210	771,132	1,712,078	69%
Use of goods and services	6,871,069	2,799,227	4,071,842	60%
Transfer to other Government units	53,111,000	13,956,500	39,154,500	74%
Other grants and transfers	40,715,559	28,983,214	11,732,345	29%
Acquisition of assets	0	0	0	
Other payments	6,351,100	0	6,351,100	0%
Total	109,531,938	46,510,073	63,021,865	57%

From the analysis above, the Fund realized under expenditure in all 5 items during the year under review.

1.3 Project Implementation and Management

During the year under review, the Fund allocated Kshs.53,472,412 to twenty (26) projects in various sectors of education, sport, environment and security. Analysis as per project implementation status revealed that twenty (24) projects were completed, two (2) were on going as detailed below: -

Sector	Project Status	Project Cost (Kshs.)	No. of Projects
Education-Primary	Complete	28,900,000	16
	Ongoing	0	0
	Not started	0	0
Education-Secondary	Complete	12,000,000	4
	Ongoing	1,500,000	1
	Not started	0	0
Security	Complete	5,800,000	2
	Ongoing	1,800,000	1
	Not started	0	0
Sport	Complete	1,736,206	1
	Ongoing	0	0
	Not started	0	0
Environment	Complete	1,736,206	1
	Ongoing	0	0
	Not started	0	0
Total		53,472,412	26

24 projects representing 92 percent budgeted for the financial year were completed but two (2) projects were still ongoing by the time of the audit.

2. Lack of Permanent Asset Register

Annex 2 is a summary of fixed assets register attached to the financial statements disclosed the value of the fixed assets as Kshs.400,000. However, the Fund did not maintain a permanent fixed asset register to record the assets maintained contrary to Section 136 (i) of the Public Finance Management (National Government) Regulation, 2015. Further, it was noted that no valuation was done for the assets.

In the absence of the fixed asset register it was not possible to ascertain the validity, completeness and accuracy of the fixed assets balance of Kshs.400,000 as at 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 Qualified Opinion section of my report, I confirm that nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained 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 continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 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.

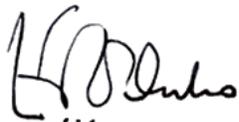
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the 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 to continue 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 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

29 July 2019

