

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – LAMU WEST 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 – Lamu West Constituency set out on pages 9 to 32, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and 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 – Lamu West Constituency as at 30 June 2018, and 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. Other Grants and Other Payments

Included in the other grants and other payments figure of Kshs.25,501,879 as disclosed under note 7 to the financial statements were bursaries amounting to Kshs.22,755,500 comprising of Kshs.14,317,500 and Kshs.8,438,000 being bursaries to various secondary schools and tertiary institutions respectively. However, the following anomalies were noted:-

- (i) There were cancelled and reversed cheques amounting to Kshs.2,270,000 reported as paid to various institutions for bursary resulting in an overstatement of bursaries figure by the same amount.
- (ii) Audit review of the expenditure revealed that an amount of Kshs.21,976,500 disbursed to various institutions had not been acknowledged through official receipts or acknowledgement letters from the beneficiary institutions.

Consequently, the probity of expenditure of Kshs.22,755,500 as at 30 June 2018 on bursaries could not be confirmed.

2. Unutilized Funds

The transfers to other Government entities as detailed in note 6 to the financial statements reflects Kshs25,289,655. However, although the funds were disbursed to the respective project management committees (PMCs), five (5) projects with a total budget of

Kshs.5,589,655 were not implemented during the period under review as summarized below:

Payee	Description	Amount Kshs.
Sikomani Primary School	Renovation of computer Laboratory	150,000
Witu Mjini Secondary School	Electrification at Witu Mjini	350,000
Salama Secondary School	Construction of new 2 classrooms	2,800,000
Wiyoni Secondary School	Construction of 2 door modern toilets to completion	600,000
Lamu Girls Secondary School	Construction of septic tank and drainage system for the dormitory	1,689,655
Total		5,589,655

Consequently, the probity of the Kshs.5,589,655 expenditure on transfer to other Government entities 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– Lamu 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 section, 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 Conclusion on Lawfulness and Effectiveness in the use of Public Resources section 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. Budgetary Control and Performance

During the year under review, the Fund had an approved budget of Kshs.131,146,358 comprising of Kshs.86,810,345 for financial year 2017/2018 and Kshs.44,336,014 being funds brought forward from financial year 2016/2017. The actual expenditure by the Fund in

the financial year under review was Kshs.58,450,531 representing an absorption rate of 45% of the total approved budget. Analysis of budget performance by component is as below:-

Expenditure Analysis	Budget Kshs	Actual Kshs	Variance Kshs	Absorption Kshs
Compensation of Employee	3,606,583	2,389,200	1,217,383	66%
Use of Goods and services	6,229,775	5,269,798	959,977	85%
Transfer to Other Government Unit	88,750,518	25,289,655	63,460,863	28%
Other Grants and Transfers	31,735,059	25,501,879	6,233,180	80%
Acquisition of Assets	824,424	0	824,424	0%
Total	131,146,358	58,450,532	72,695,827	45%

The above analysis reflects a budget of Kshs.131,146,358 and actual expenditure of Kshs.58,450,531 resulting to an under expenditure of Kshs.72,695,828.

In the circumstances, failure to utilize the approved budget may have compromised in service delivery to the constituents of Lamu West.

2. Project Implementation

The project implementation status report made available for audit indicated that a total of Kshs.78,997,415 was allocated to twenty two (22) projects, out of which two (2) projects amounting to Kshs.21,702,586 were complete, One (1) project of Kshs.4,568,966 was ongoing and nineteen (19) projects amounting to Kshs.52,725,863 were not started as below:

Project Name	Activities	Amount Kshs.	Status
Bursary secondary schools	Payment of bursary to needy students	13,702,586	Complete
Bursary tertiary schools	Payment of bursary to needy students	8,000,000	Complete
Emergency reserve	Emergency	4,568,966	Ongoing
Sports	Carry out constituency cultural sports tournaments	1,736,206	Not started
Hongwe Intergrated Primary School	Construction to completion of two new classrooms	3,000,000	Not started
Manda Maweni Primary School	Construction to completion of two classrooms	3,000,000	Not started
Poromoko Primary School	Construction to completion of two classrooms	3,000,000	Not started
Ungu Primary School	Construction to completion of two classrooms	3,000,000	Not started
Furaha Primary School	Construction to completion of two classrooms	3,000,000	Not started
Lake Amu Primary School	Construction to completion of 10 door toilets	2,400,000	Not started
Constituency environment activities	Construction of 3 blocks of toilets at umoja girls sec School	1,736,206	Not started
Primary Schools Furniture	Supply of school 600 desks to 10 primary schools	3,452,000	Not started

Project Name	Activities	Amount Kshs.	Status
Umoja Girls Secondary school	Construction to completion of three new classrooms	4,500,000	Not started
Majembeni Secondary school	Construction to completion of three new classrooms	3,000,000	Not started
Bomani Secondary School	Construction to completion of three new classrooms	3,000,000	Not started
Strategic plan	Preparation of strategic plan 2017-2022	3,000,000	Not started
Tewe Chief Office	Construction to completion of chief's office	2,300,000	Not started
Langoni Chief Office	Construction to completion of chief's office	2,300,000	Not started
Hindi AP Post	Construction to completion of Police Post	2,400,000	Not started
Maleli AP Post	Construction to completion of Police Post	2,400,000	Not started
Constituency Innovation Hub	Setting up of four Constituency ICT Centers at Witu Mjini, Mpeketoni Boys and Hindi Secondary schools and Mpeketoni Office	4,677,027	Not started
NG-CDF Office Improvement	Office plumbing system including piping, fittings and connection	824,424	Not started
Total		78,997,415	

In view of the foregoing, the constituents did not get the services expected to be derived from twenty (20) projects worth Kshs.57,294,829 as at 30 June 2018.

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 matter(s) 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

1. Constituency Oversight Committee

The Fund did not have a Constituency Oversight Committee in place, contrary to Section 54(1) of the National Government Constituencies Development Fund Act, 2015 which requires that constituency oversight committees to be appointed for every National Government Constituencies Development Fund.

In the circumstances, the Fund was in breach of Section 54(1) of the National Government Constituencies Development Fund Act, 2015.

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 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 services, disclosing, as applicable, matters related to the sustainability of services and using the applicable 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 as a going concern or 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 of the Fund 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

13 August 2019