

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – LARI 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 – Lari Constituency set out on pages 6 to 27, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flow 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 National Government Constituencies Development Fund – Lari 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Outstanding Imprests

The statement of assets as at 30 June 2018 reflects outstanding imprests balance of Kshs.1,167,750 and as disclosed in Note 11 to the financial statements. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the details of the imprest holders including their names, dates issued and due, and the respective amounts outstanding as at 30 June 2018 have not been disclosed in Note 11. The corresponding Note has also been erroneously indicated in the statement of assets as 10C instead of 11.

In addition, the imprests register has not been updated and the AIE Holder had been issued with multiple imprests contrary to the provisions of regulation 93 of the Public Finance Management (National Government) Regulations, 2015.

Consequently, it has not been possible to confirm the accuracy, completeness and recoverability of the outstanding imprests balance of Kshs.1,167,750 as at 30 June 2018.

2. Cash and Cash Equivalents

The statement of assets as at 30 June 2018 reflects cash and cash equivalents of Kshs.14,578,490. However, the following unsatisfactory matters have been noted regarding the same:

(i) Unpresented Cheques

The bank reconciliation statement as at 30 June 2018 reflects unpresented cheques totalling Kshs.14, 578,490 which includes stale cheques amounting to Kshs.880,356. However, no explanation has been given for failure to reverse the stale cheques in the cash book.

(ii) Unsupported Bank Reconciliations

Further, examination of bank reconciliation statements for twelve months from July 2017 to June 2018 revealed payments in the bank statements not recorded in the cash book amounting to Kshs.932,484. However, documents in support of these payments have not been provided for audit review. In the circumstances, the validity and propriety of the payments totalling Kshs.932,484 cannot be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Lari 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. Budget Under Absorption

During the year under review, Lari NG-CDF management had budgeted to receive and spend an amount of Kshs. 98,356,990, respectively. However, the actual expenditure was Kshs.27,826,266 only or 28%, leading to an under expenditure of Kshs.70,530,724 or 72% of the total budget. The under expenditure implies that planned activities and programmes were not executed, and which in turn means that the public resources budgeted for and made available by parliament were not efficiently and effectively used for the benefits of the constituents.

2. Non Implementation of Projects and Activities

Examination of budget documents revealed that Lari NG-CDF management had not implemented as at 30 June 2018, projects budgeted for amounting to Kshs.64,176,379.94 as detailed below:

Project	Specific Activities	Amount Kshs.
Strategic Plan	To undertake a constituency strategic plan.	3,500,000.00
Sports		
Sports	Organizing of marathon and purchase of uniforms for the winning teams.	1,736,206.90
Sports	Organizing football matches for; Kinale,Kijabe,Kamburu, Lari kirenga and Nyanduma F.C'S	227,586.20
Environment Projects		
	Planting Trees	227,586.20
Primary School Projects		
Kamahindu Primary School	Renovation of eight classrooms (plastering, reroofing, fixing window panes, flooring, painting and fixing fascia boards)	1,800,000.00
Muhoro primary	Renovation of eight classrooms (plastering, reroofing, fixing window panes, flooring, painting and fixing fascia boards)	1,800,000.00
Kijabe Primary School	Construction of one classroom to completion.	1,000,000.00
Kago Primary School	Construction of two classrooms to completion	2,000,000.00
Utugi Primary School	Construction of two classrooms to completion	2,000,000.00
Sulmac Primary School	Construction of one classroom to completion	1,000,000.00
Githirioni Primary School	Renovation of eight classrooms (plastering, re-roofing, fixing window panes, flooring, painting and fixing fascial boards)	1,800,000.00
Kabunge Primary School	Construction of one class to completion	1,000,000.00
Secondary School Projects		
Gachema Secondary School	Completion of three classrooms (walling and roofing)	3,000,000.00
Iria-ini secondary school	construction of one class to completion	1,000,000.00
Bursaries	Allocation of bursary to the needy students in secondary schools, tertiary and special needs	12,942,758.62
Emergencies		

Project	Specific Activities	Amount Kshs.
Emergency	To cater for any unforeseen emergency occurrences in the constituency during the financial year.	568,965.51
Emergency	To cater for any unforeseen emergency occurrences in the constituency during the financial year.	4,568,965.52
Security Projects		
Kwaregi AP Post	Renovation of 3 AP houses (plastering, reroofing, fixing window panes, flooring, painting and fixing fascial boards)	656,035.16
Kwaregi AP Post	Construction of two AP Post Offices	1,548,275.83
Kijabe ACCs Office	Construction of Assistant County Commissioner office to completion	1,200,000.00
ICT Hub		
Kamburu ICT Hub	Equipment (Kshs.1,169256.80) and Construction (Kshs.2,330,743.20)	3,500,000.00
Kagwe ICT hub	Equipment (Kshs.1,169256.80) and Construction (Kshs.2,330,743.20)	3,500,000.00
Kimende ICT hub	Equipment (Kshs.1,169256.80) and Construction (Kshs.1,830743.20)	3,000,000.00
Kinale ICT hub	Equipment (Kshs.1,169256.80) and Construction (Kshs.2,330,743.20)	3,500,000.00
Multi-purpose Units-Re-Allocation to Schools		
Sulmae Secondary School	Construction of one Classroom to Completion	1,300,000
Gatithia Girls Secondary School	Construction of a Dormitory	1,200,000
Munyaka Primary School	Construction of 4 Cubicle Latrines at Kshs.300,000. Levelling of School Play Ground at Kshs.200,000	500,000
	Sub-Total	3,000,000
Technical Institute		
Lari Technical Training Institute	Construction of 1200m Security Perimeter Wall around the Institution at Kshs.2,700.000. Landscaping of the whole institution at Kshs.600,000	3,300,000.00
Acquisition of Assets		
Office Furniture	Purchase of office furniture	800,000.00
TOTAL		64,176,379.94

The failure to implement the above planned projects and activities impacted negatively on 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 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 controls 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 – Lari Constituency to sustain services, disclosing and 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 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 – Lari 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 May 2019