

REPORT OF THE AUDITOR-GENERAL NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LIMURU CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund- Limuru Constituency set out on pages 6 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 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Limuru 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 the National Government Constituencies Development Fund Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Limuru 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 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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section, I have determined that there are no key audit matters to communicate in my report.

REPORT OF 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 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. Budget and Budgetary Control

During the year under review, Limuru NG-CDF management budgeted to receive and spend Kshs.110,039,054. However, the overall actual expenditure for the year was Kshs.50,367,679 resulting in an under expenditure of Kshs.59,671,375 which is equivalent to about 54% of the total final budget. The under expenditure was mainly on transfers to other Government units - Kshs.22,613,000 or 50.3% and other grants and transfers - Kshs.35,426,825 or 63.6% of the budgeted amount, respectively.

2. Kamirithu Jua Kali Sheds Project

This project has been funded under Phase I cumulatively in 2013/2014, 2014/2015 and 2015/2016 financial years with an amount of Kshs.5,500,000 and not yet completed. Available records show that an expenditure of Kshs.2,036,839 was incurred on the project during the 2014/2015 financial year through labour contracting while an amount of Kshs.541,843 was paid through cheques to some suppliers during the 2015/2016 financial year.

In 2016/2017 financial year, a contract was awarded to M/S Lexum Enterprises at a sum of Kshs. 3,940,605.00 which would have covered full construction of the market stalls in Phase II up to completion. Although the site was handed over to the contractor on 19 January 2017, no works were done due to differences between the contractor and Kamirithu Juakali Association who evicted the contractor from the site. However, the contract has not been terminated and matter remains unresolved to date.

Although Kenya Power and Lighting Company has been paid an amount of Kshs.45,887, there is no electrical installation in the Jua Kali Sheds and the toilets block constructed at undisclosed amount remain incomplete and therefore, not operational.

A firm, M/s Jentech, has been paid an amount of Kshs.454,242 which includes retention money of Kshs.27,838 and VAT of Kshs.21,714 in respect of works purportedly undertaken. However, related contract document has not been seen and therefore, the nature of work done under the contract can not be confirmed.

3. Construction of a Dormitory at Gichuru High School

The contract was awarded to M/S Ammotech Ltd at a cost of Kshs.4,249,800 in 2013/2014 financial year. The project is reported complete but not used because Gichuru High School is a day school and cannot offer boarding facilities in the absence of staff houses as required by the Ministry of Education. Visible failures have been observed on the floor of the building

which has gaping cracks. In the circumstances, value for money of the expenditure Kshs.4,249,800 incurred in respect of the dormitory can not be confirmed.

4. Construction of Toilets with Bio Digester at Muna Secondary School

The above contract was awarded to M/s Nasca Construction Ltd at a contract sum of Kshs.1,626,415. However, the project is not sustainable due to lack of water and the building is currently used as a store for firewood and broken chairs. In the circumstances, value for money of the expenditure Kshs.1,626,415 incurred cannot be confirmed.

5. PMC Bank balances

Annex 4 to the financial statements shows a list of bank balances related to Project Management Committee (PMCs) accounts which increased from Kshs.19,438,137.95 as at 30 June 2017 to Kshs.24,661,365.30 as at 30 June 2018. No satisfactory explanation has been provided for this anomaly.

6. Unexplained Increase in Unutilized funds

Note 15.3 of the financial statement shows an increase in unutilized funds from Kshs.9,341,062 in 2016/2017 to Kshs.59,671,375.00 in 2017/2018. No satisfactory reasons have been given for delays in project implementation.

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 Lawfulness and Effectiveness in Use of Public Resources section 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- Limuru 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-Limuru 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

14 May 2019