

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LUGARI 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 - Lugari Constituency set out on pages 1 to 22, 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 statement of comparison of budget and actual amounts 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 - Lugari 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. Summary Statement of Appropriation

The summary statement of appropriation: recurrent and development combined reflects final budget of Kshs.107,507,491 for the year under review whereas the available records shows a final budget of Kshs.129,265,917, resulting to an undisbursed balance of Kshs.21,758,425 brought forward from previous years. No explanation was provided for failure to incorporate the brought forward balance in the current budget.

In addition, the summary statement of appropriation: recurrent and development combined reflects budget utilization difference of Kshs.31,795,533 while the correct computed figure should be Kshs.29,375,267 resulting to a variance of Kshs.2,420,266 which was not explained or reconciled.

Consequently, the accuracy of the summary statement of appropriation: recurrent and development combined annexed to the financial statements under review could not be ascertained.

2. Notes and Disclosures

Note 10.2 to the financial statements discloses Project Management Committee (PMC) comparative account balance as at 30 June 2017 of Kshs.2,754,682 while the

supporting annex 2 to the financial statements do not disclose the individual PMC account balances.

Consequently, the completeness of the supporting annex 2 to the financial statements for the year ended 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 - Lugari 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.

Other Matter

1. Budgetary Control and Performance

1.1 Budget Performance

The Fund had an approved budget of Kshs.107,507,491 for the year ended 30 June 2018. The Fund recorded actual expenditure of Kshs.78,132,224 representing 73% of the approved budget resulting to an under expenditure of Kshs.29,375,267 representing 27% of the approved budget as shown below:

Item	Approved Budget Kshs.	Actual Expenditure Kshs.	Under Absorption Kshs.	Under Absorption %age
Compensation of Employees	2,138,662	2,138,662	-	-
Use of Goods and Services	13,247,407	7,622,783	5,624,624	42
Transfers to Other Government Units	36,519,419	15,086,280	21,433,139	59
Other Grants and Transfers	51,761,935	49,444,431	2,317,504	4
Acquisition of Assets	3,840,068	3,840,068	-	-
Total	107,507,491	78,132,224	29,375,267	27

Failure to utilise funds is an indication that services and approved programs were not delivered as planned and therefore the budget did not meet the intended objectives of improving delivery of services and programmes to the constituents of Lugari Constituency.

1.2 Project Implementation Status

According to the project implementation status (PIS) report provided for audit, the Fund had since 2013/2014 disbursed a total of Kshs.555,342,946 towards implementation

of six hundred and forty-one (641) projects which were at various levels as at 30 June 2018 as shown below:

Status	Period	2016-17 & Earlier	2017-18	Total
Completed	No of Projects	503 Kshs.	31 Kshs.	534 Kshs.
	Estimated Cost (Kshs)	461,159,323	63,417,943	524,577,266
	Allocated Amount (Kshs)	441,032,479	53,417,943	494,450,422
	Disbursed Amount (Kshs)	404,827,005	53,417,943	458,244,947
Ongoing	No of Projects	59	48	107
	Estimated Cost (Kshs)	111,572,467	70,905,713	182,478,180
	Allocated Amount (Kshs)	99,222,467	44,771,713	143,994,180
	Disbursed Amount (Kshs)	52,326,286	44,771,713	97,097,999
Total	No of Projects	562	79	641
	Estimated Cost (Kshs)	572,731,790	134,323,655	707,055,445
	Allocated Amount (Kshs)	540,254,946	98,189,655	638,444,601
	Disbursed Amount (Kshs)	457,153,291	98,189,655	555,342,946

It was noted that fifty-nine (59) projects with disbursements totalling Kshs.52,326,286 relating to 2016/17 and earlier years were still ongoing while forty-eight (48) projects with disbursements of Kshs.44,771,713 and which started in 2017/2018 were also still ongoing. Delay in implementation of projects denies the residents of Lugari Constituency the benefits that would have accrued from the completed projects.

1.3 Project Verification

A sample of thirteen (13) projects undertaken by the Fund at a cost of Kshs.41,450,000 were verified during the audit in April 2019 and the observations noted are summarized below;

	Project	Amount (Kshs)	Remarks
1	Cheraywa TTI	2,700,000	Purchase of additional 2 acres of land Block Kabras/Kiliboti/1413 at Kshs.1,000,000, fencing off the now consolidated 10 acre land at Kshs.500,000 and construction of 2 class rooms at Kshs.1,200,000. A further 8 acres had been acquired earlier. The land is fenced but one classroom was under construction during the site visit with poor workmanship going on in respect to roofing. The title deed for this land was not availed for audit verification.
2	Mautuma MTC	1,000,000	Purchase of 1-acre additional land bringing the total land to 2.5 acres since 1.5 acres Block Mautuma/2373 had been purchased in 2016/17 to construct hostels. The transaction is finalized and the land fenced off but the title deed was not be availed for audit review.
3	Kipkaren Rural Primary School	3,000,000	The school was to purchase two parcels of land each 0.4 Ha and a sale agreement was signed between the School BoM and the seller of the pieces Blocks Lumakanda/7373 & 4 at a cost of Kshs.3.0m. The

	Project	Amount (Kshs)	Remarks
			school had taken over but the title deed to the land had not been secured.
4	Mbajo Primary School	3,200,000	Construction of 2 classrooms at Kshs.1,400,000 and Purchase of 2 acres of land at Kshs.1,800,000. A site visit revealed that the costs may have been exaggerated in that the classroom was an extension from an existing one meaning one wall and associated costs were not incurred while the costing was for standalone class. As a result, the Fund lost the funds paid for the already existing wall. Further, no measurements were availed for the certified works. In addition, the windows and doors were slightly smaller thereby increasing the value for money not achieved. The floor had cracks already before completion. The title deed for the land was not available for audit verification.
5	St Paul Lugari Boys Laboratory	1,550,000	Completion of a twin laboratory was ongoing with roofing, plastering, floor screed, doors, windows and glazing, cabinets & electricity wiring already done. However, no detailed certificates of measured works were availed to enable verification of the works paid for. Further the project management committee was not involved in the project implementation and did not have the bills of quantities casting doubt on the effectiveness of the monitoring process.
6	St Louis Saisi Primary School Girls Dormitory	900,000	The amount was disbursed for the construction of one (1) girls' dormitory estimated to cost Kshs.3 million. This amount was noted to represent less than a third of the project cost which would ultimately delay the completion period thus denying the users value for the project as it drags and costs escalate.
7	Ivona Mixed Secondary School	1,300,000	Construction of one (1) classroom at Kshs.900,000 and purchase of 1 acres of land at Kshs.400,000. The school had started another project without completion of an old one involving construction of a classroom now abandoned. Of the new classes, one was complete but the windows design and positioning was not providing enough light for students.
8	St Joseph Majengo Secondary School	900,000	The funds were meant for construction of one (1) classroom and the contractor was paid Kshs.339,310 being Cert No 1 with works expected to be completed by 31 October 2019 but no measurements were availed for the certified works.
9	Construction of Lugari CDF office. Phase one-laying the foundation and walling and roofing	7,000,000	Work in progress balance allocated in 2016/17 and 2017/18
10	Completion of Grading, and muramming of Makutano-Sipande Road of 27km.	6,000,000	13km done, 14km to be completed
11	Completion of Grading, and muramming of Laini Moja-	3,100,000	7km completed, 7km to be done

	Project	Amount (Kshs)	Remarks
	Musembe-Mapengo Dispensary road. 14km		
12	Completion of Grading, and muramming of Mufutu-Frank-Manyonyi Milimani road. 25kms	5,800,000	14km completed, 11kms to be done
13	Completion of Grading, and muramming of Nambilima-Vuyika L6209 road 23Kms.	5,000,000	14km completed, 9kms to be complete
	Total	41,450,000	

It was noted that most of the parcels of land purchased did not have title deeds and no explanation was provided for the slow pace in implementation or failure to implement all the projects as budgeted.

Consequently, the residents of Lugari Constituency may not have benefited from the incomplete projects.

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 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. Maintenance of Roads

The other grants and transfers figure of Kshs.49,444,431 include roads expenditure of Kshs.16,110,400 for the year ended 30 June 2018 as disclosed in note 6 to the financial statements. The expenditure was in respect of pending bills due to road contractors incurred during the financial years 2015/2016 and 2016/2017. The roads had been constructed when the road function was still under the National Government. Although the NGCDF Board in April 2017 approved a supplementary budget and provided the funds to pay for road works, the same had not been disclosed in the financial statements for the previous year as pending payables. However, no explanation was provided for the failure to disclose the bills in the financial statements under review. Consequently, the propriety of Kshs.16,110,400 incurred on pending bills during the year under review could not be confirmed.

2. Lugari CDF's Office Construction Works

The acquisition of assets amount of Kshs.3,840,068 comprises of two payments made to contactors of Kshs.3,000,000 and Kshs.840,000 respectively in respect to the Fund's

office construction works. However, it was noted that the bills of quantities appeared to have been exaggerated. For instance, a sample taken for various works in respect of bills of quantities valued at Kshs.1,093,675 were upon verification found to total Kshs.733,732 resulting to an overcharge of Kshs.359,943 as detailed below:

	Element Item	Details		BQ (Units)	Actual (Units)	BQ Value Kshs.	Actual Certified Kshs.	Loss Kshs.
1	Doors	Mahogany	M ²	31.50	16.22	210,000	108,138	101,862
2	Doors	Steel Doors	M ²	7.50	5.80	40,000	30,912	9,088
3	Windows	1800	1500	16.2	12.075	48,000	35,7787	12,222
4	Windows	1500	900	2.7	1.098	13,000	5,287	7,713
5	Windows	1500	1200	18	11.232	70,000	43,6802	26,320
6	Windows	600	400	1.68	1.05	24,675	15,422	9,253
7	Chipboards			320	282.8	384,000	339,360	44,640
8	Painting			320	282.8	64,000	56,560	7,440
9	Kitchen Base Cabinets			1	0	30,000	0	30,000
10	Painting			1050	492.98	210,000	98,595	111,405
	Total					1,093,675	733,732	359,943

Arising from the above verification sample, the value of the works may have been overestimated by approximately 33%. In addition, the management did not provide details of the certificates used to support the payments to the two contractors. Consequently, value for money on the expenditure of Kshs.3,840,000 for the year ended 30 June 2018 could not be confirmed.

3. Marakusi Community Project

According to the project implementation status report provided for audit review, the Fund had during the previous years leased 10 acres of land for construction of a maize preservation plant at a cost of Kshs.2,550,000. The cost of Kshs.2,550,000 included lease of the ten (10) acres for a period of ten (10) years and fencing of the same. However, during the audit verification in April 2019, it was found that no activity was going on at the site despite payment having been made in 2014/15 and management did not explain what it intends to do with the leased land. Consequently, the expenditure of Kshs.2,550,000 amounts to nugatory payment and has not benefited the residents of Lugari Constituency.

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 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 overall 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 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 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 Fund's 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

Report of the Auditor-General on the Financial Statements of National Government Constituencies Development Fund - Lugari Constituency for the year ended 30 June 2018

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 Fund policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 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

26 August 2019