

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – LURAMBI 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 - Lurambi Constituency set out on pages 6 to 33, 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. 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 - Lurambi 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. Cash and Cash Equivalents

The cash and cash equivalents balance reflect Kshs.8,704,334 as at 30 June 2018. However, a verification of the bank reconciliation statement for the month of June 2018 revealed un-presented cheques totalling Kshs.8,254,944 out of which cheques amounting to Kshs.876,278 were dated between March 2016 and October 2017 and were therefore stale and should have been reversed to the cashbook. The bank reconciliation further reflects bank charges totalling Kshs.93,045 relating to the period March 2017 to June 2018 and which ought to have been recorded in cashbook.

Further, it was noted that the cash and cash equivalents at end of year of Kshs.7,522,847 reflected in the statement of cash flows excludes the retention monies totalling Kshs.1,181,487 owed to a local construction company and was forming part of closing cash and cash equivalents.

Consequently, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.8,704,334 as at 30 June 2018 is fairly stated.

2. Summary Statement of Appropriation: Recurrent and Development Combined

The summary statement of appropriation: recurrent and development combined reflects final budget of Kshs.133,479,577 for the year under review. However, the approved budget should have been Kshs.133,979,579 arrived at as follows;

Item	Amount (Kshs)
Original budget	86,810,345
Budget adjustment 2017/2018	11,379,310
Undisbursed amount for 2016/2017	30,948,275
Cash balance brought forward from 2016/2017	4,341,649
Cash balance brought forward from 2015/2016	500,000
Total	133,979,577

The resultant difference of Kshs.500,002 has not been explained or reconciled.

Consequently, the accuracy of the summary statement of appropriation: recurrent and development combined for the year ended 30 June 2018 could not be confirmed.

3. Accounts Payable

Note 15.3 to the financial statements discloses unutilised funds payable to projects totalling Kshs.82,521,075 which is equivalent to budget under-utilization as reflected in the summary statement of appropriation: recurrent and development combined for the year ended 30 June 2018. However, the payables do not include the cash balance of Kshs.8,704,334 as at 30 June 2018 as reflected in the statement of assets and liabilities. In addition, the financial statements do not disclose the amount of Kshs.82,521,075 as receivables from the NGCDF Board as at 30 June 2018.

Consequently, the accuracy of 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 - Lurambi 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.133,479,577 for the financial year 2017/2018. During the same period, the Fund recorded expenditure of Kshs.50,958,502 or 38% of the budget resulting in an under expenditure of Kshs.82,521,075 or 62% of the budget as detailed below:

Item	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under Absorption (Kshs)	Under Absorption %
Compensation of Employees	2,652,060	2,561,543	90,517	3%
Use of goods and services	6,489,065	6,421,371	67,694	1%
Transfers to Other Government Units	60,884,336	13,750,000	47,134,336	77%
Other grants and transfers	39,463,345	28,225,588	11,237,757	28%
Acquisition of Assets	16,813,744	0	16,813,744	100%
Other Payments	7,177,027	0	7,177,027	100%
Totals	133,479,577	50,958,502	82,521,075	62%

Failure to utilise funds is an indication that services and approved programs were not delivered, and intended objectives of improving delivery of goods and services to the residents of Lurambi Constituency were not met.

1.2 Project Implementation Status

According to the project implementation status report availed for audit review, the Fund had planned to implement three hundred and fifty-six (356) projects between 2013/2014 and 2017/2018. As at 30 June 2018, one hundred and thirty five (135) funded for Kshs.131,452,144 were complete, one hundred and forty-eight (148) projects funded for Kshs.244,751,708 were on-going, fourteen (14) projects out of which six (6) projects had been funded for Kshs.2,000,000 had not started. In addition, fifty-nine (59) projects out of which twenty-five (25) projects had been funded for Kshs.4,048,774 did not indicate their current status. The implementation status is as detailed below:

Financial Year	Implementation Status	No of Projects	Amount Disbursed (Kshs)
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2013/14	Complete	26	26,233,945
2014/15	Complete	51	46,348,544
2015/16	Complete	40	42,348,655
2016/17	Complete	16	14,071,000
2017/18	Complete	2	2,450,000
		135	131,452,144
2013/14	Ongoing	29	44,334,141
2014/15	Ongoing	37	54,284,643
2015/16	Ongoing	45	62,585,723
2016/17	Ongoing	19	47,720,689.65
2017/18	Ongoing	18	35,826,511.03
		148	244,751,708
2014/15	Not Started	1	1,000,000
2014/15	Not Started	5	0
2015/16	Not Started	5	1,000,000
2015/16	Not Started	1	0
2016/17	Not Started	2	0
		14	2,000,000
2013/14	No Status	1	500,000
2015/16	No Status	2	2,000,000
2016/17	No Status	22	1,548,774
2017/18	No Status	34	0
		59	4,048,774
		356	382,252,626

It was noted that all the fourteen (14) projects that had not started related to the period 2014/2015, 2015/2016 and 2016/2017.

Consequently, the residents of Lurambi Constituency may not have obtained value for money due to these 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. Transfer to Other Government Units

1.1 Project Records

The statement of receipts and payments reflects transfers to other government units amount of Kshs.13,750,000 for the year ended 30 June 2018. Audit review of the expenditure on transfers to other government units amounting to Kshs.3,500,000 revealed that project management committees (PMCs) which received funding from the Fund did not keep proper books of account and documents as required by the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management (National Government) Regulations, 2015 as tabulated below.

Project	PV No.	Amount (Kshs)	Remarks
Daisy Special School	71	300,000	<ul style="list-style-type: none">• Construction of six door Pit latrines
Shiyunzu Primary School	56	300,000	<ul style="list-style-type: none">• Construction of 10 door pit latrines
Ebwambwa Primary school	72	300,000	<ul style="list-style-type: none">• Construction of 10 door pit latrines
Eshibeye Primary School	56	300,000	<ul style="list-style-type: none">• 6 door pit Larines• Labour based contract
Eshikhuyu Primary School	33	300,000	<ul style="list-style-type: none">• Renovation of classroom• Labour based contract
Musaa Primary School	75	700,000	<ul style="list-style-type: none">• Contract price is Kshs.3,050,128• Lowest bidder was Finn works ltd at Kshs.2,543,363 but contract awarded to Mastashal ltd at Kshs.3,050,128• It's not clear why the lowest bidder was not awarded the contract.
Indangalasia Primary School	52	700,000	<ul style="list-style-type: none">• Building is at roofing level• Contract awarded to Mashtashal ltd
Shitungu AP Camp	47	600,000	<ul style="list-style-type: none">• Total project cost Kshs.1,500,000• The floor has cracks as a result of poor workmanship• Building is partially complete
Total		3,500,000	

In the absence of proper records and up to date project implementation status reports, it was not possible to confirm the authenticity of Kshs.3,500,000 disbursed to the PMCs.

1.2 Construction of St. Lawrence Ichina Primary School

Included in transfers to other government units figure of Kshs.13,750,000 is Kshs.1,000,000 disbursed to St. Lawrence Ichina Primary School towards the contract for laying of pillars, casting of slab on first floor of administration block and construction of two (2) classrooms. This brought the total cumulative disbursements to the project to Kshs.7,500,000.

The contract for implementation of the project was awarded to a construction firm on 19 August 2014 at a contract sum of Kshs.8,561,652. As at the time of this audit in March 2019, a total of which Kshs.4,000,000 had been paid to the contractor resulting to a balance of Kshs.3,500,000 remaining in the project bank account. However, the contractor was not on site and the building had stalled at ground floor. In addition, there were no completion certificates of work done to support the payment of Kshs.4,000,000 already paid. Consequently, the residents of Lurambi Constituency may not have obtained value for Kshs.7,500,000 so far disbursed to the project.

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 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 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

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's 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 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

12 July 2019