

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MAARA 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 (NG-CDF) - Maara Constituency set out on pages 6 to 28 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 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 – Maara 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Non-Acknowledgement of Bursaries

Note 7 to the financial statements reflects Kshs.25,756,414 in respect to other grants and other payments which includes bursaries totalling to Kshs.19,744,000 comprising of Kshs.11,950,500, Kshs.7,725,000 and Kshs.68,500 disbursed to secondary schools, tertiary institutions and special schools respectively during the year ended 30 June, 2018. However, only bursaries totalling to Kshs.10,550,000 (53%) were acknowledged by the respective beneficiary institutions leaving a balance of Kshs.9,194,000 (47%) not acknowledged by the beneficiary institutions. In addition, the list of all bursary applicants was not availed for audit review.

In the circumstances, it has not been possible to ascertain that the Kshs.9,194,000 in respect to bursaries disbursements for the year ended 30 June ,2018 was received and expended as appropriated.

2.0 Project Management Committees (PMC) Accounts

Note 15.4 to the financial statements reflects Kshs.1,959,969 in respect to Project Management Committees (PMC) bank account balances and which were not utilized as

at 30 June, 2018 contrary to Section 12 (8) of National Government Constituencies Development Fund (NG-CDF) Act 2015 which states that all unutilized funds in the project management committee accounts shall be returned to the constituency account. Further, bank statements and confirmation certificates for these PMC accounts were not availed for audit review.

In the circumstances, the accuracy and validity Kshs.1,959,969 in respect to Project Management Committees (PMC) bank account balances as at 30 June, 2018 could not be confirmed. Further, the CDF management was in breach of the law.

3.0 Cash and Cash Equivalents

Note 10A to the financial statements reflects Kshs.2,955,750 in respect to bank balances as at 30 June 2018. However, the respective bank reconciliation statement reflects Kshs.1,004,881 in respect to stale unrepresented cheques which were not reversed in the cash book as at the time of this audit in January, 2019.

In the circumstances, the cash and cash equivalents balance of Kshs.2,955,750 reflected in the financial statements as at 30 June, 2018 is understated by Kshs.1,004,881

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of NG-CDF Maara 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

1.0 Budget Control and Performance

1.1 Receipt Analysis

The Fund's summary statement of appropriation (recurrent and development) for the year ended 30 June, 2018 reflects an approved receipt budget of Kshs.99,043,621 while the actual receipts is Kshs.44,259,138 resulting to budget shortfall of Kshs.54,784,483 as shown below;

Item	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Under (Kshs)	% under
Transfer from CDF Board	99,043,621	44,259,138		54,784,483	55%

Item	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Under (Kshs)	% under
Total	99,043,621	44,259,138		54,784,483	

Overall, the Fund failed to actualize its budget by Kshs.54,784,483 or 55% an indication that most of the programmes and activities that had been planned were not implemented. There is need therefore for Constituency Development Fund management to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the citizens of Maara Constituency.

1.2 Expenditure Analysis

The Fund's budgeted payments during the year ended 30 June 2018 is Kshs.99,043,621 while the actual payments is Kshs.41,303,388 resulting to an under expenditure of Kshs.57,740,233 as shown below.

Items	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	% under
Compensation of employees	2,614,152	724,500	1,889,652	72%
Use of goods and services	10,481,874	5,022,474	5,459,400	52%
Transfers to other Government units	28,206,861	9,800,000	18,406,861	65%
Other grants and transfers	53,063,707	25,756,414	27,307,293	51%
Other payments	4,677,027	0	4,677,027	100%
Total	99,043,621	41,303,388	57,740,233	

The under-spending of the budget by Kshs.57,740,233 reflects equivalent services denied to the residents of Maara Constituency. There is need therefore for the management to relook at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the residents of Maara Constituency.

2.0 Project Implementation Status

During the financial year under review, the Fund had an approved budget of Kshs.99,043,621 comprising of Kshs.13,096,026.00 (13%) and Kshs.85,947,595.00 (87%) in respect to recurrent and development expenditures respectively. A total of 61 projects were proposed and approved with a budget of Kshs.73,468,445, out of which 41 projects with a budget of Kshs.29,977,027 had not started, while 2 projects with a budget of Kshs.17,179,007 were partially complete and 18 projects with a budget of Kshs.26,312,411 were fully complete.

In view of the foregoing, the constituents did not get the expected services equivalent to the Kshs.17,179,007 ongoing and Kshs.29,977,027 not started projects all totalling to Kshs.47,156,034 for the year ended 30 June 2018. This is an indication of inappropriate project implementation mechanism. Therefore, there is need for the Constituency Development Fund management to review its project planning mechanism with a view to prioritizing those projects which will be implemented during the financial year resulting to higher impact into improving service delivery to the citizen of Maara Constituency.

3.0 Transfer to Other Government Entities

Note 6 to the financial statements reflects Kshs.9,800,000 in respect to transfer to other government entities which includes Kshs.2,000,000 in respect to transfers to primary schools. However, a project verification during the month of January 2019 revealed that projects amounting to Kshs.1,200,000 allocated to two primary schools were not complete and the contractors were not on site and there was doubt as to whether the projects will be completed within the amount allocated. In addition, there was poor workmanship as portions of the floor had cracks even before the project is complete.

In the circumstances, the value for money for the Kshs.1,200,000 expenditure for the year ended 30 June, 2018 cannot be ascertained.

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 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

Presentation of the Financial Statements

The Public Sector Accounting Standards Board (PSASB) stipulates that the financial statements for any National Government entity should include a separate summary statements of appropriation for recurrent and development and a budget execution by programmes and sub - programmes. However, the Fund's financial statements for the year ended 30 June 2018 did not include these statements. In addition, the PSASB stipulates that the head of finance should indicate his/her Institute of Certified Public Accountant (ICPAK) membership number in the financial statements. However, this membership number was not included in the financial statements for the year ended 30 June, 2018.

In the circumstances, the presentation of the financial statements for the year under review was not in accordance with the recommended (PSASB) format.

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.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit so as 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 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.

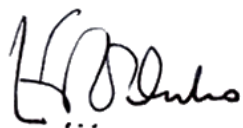
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Maara National Government Constituencies Development Fund – Maara Constituency to cease to continue as a going concern or 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 Maara National Government Constituencies Fund – Maara 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

04 April 2019