

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Muhoroni National Government Constituencies Development Fund set out on pages 9 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 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 Muhoroni National Government Constituencies Development Fund 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Fixed Assets Register

Included in the financial statements under annex 4 is summary of fixed assets with a total figure Kshs.43,706,629 which includes building and structures of Kshs.17,000,000 on land not valued, grader cat 140H GH A608V Kshs.18,005,520 and Toyota Hilux GKB 074C Kshs.4,900,000 all totaling to Kshs.39,905,520. However, the Fund did not avail the ownership documents for the land where the registered office is and the log books for the Fund vehicle and grader for audit verification. The grader is no longer in use and it is under the custody of Muhoroni Sugar Company where the security is not assured. However, contrary to section 143. (1) of the Public Finance Management National Government Regulation, 2015 stipulate that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

Consequently, the ownership of the Fund assets could not be established as it has not been supported by the necessary documentation.

2. Unsupported Expenditure - Other Grants and Other Payments

Included in the financial statements under note 7 is other grants and other payments of Kshs.43,242,301 which includes bursary to secondary school of Kshs.33,851,955 and environment projects of Kshs.1,842,000. However, expenditure totaling to Kshs.866,990 under both items were not supported with payment vouchers. There were no ledgers to support the individual class of transactions under other grants and other payments despite the fact that the financial statements indicated that the same had been attached. However, contrary to section 99(3) of Public Finance Management National Government Regulation 2015 stipulate that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

Consequently, the propriety of the bursary to secondary school and environment projects expenditure of Kshs.866,990 could not be confirmed.

3. Expenditure on Emergency

Included in the financial statements under note 7 is other grants and other payments of Kshs.43,242,301 which includes emergency projects of Kshs.3,908,200. The amount was used to purchase some relief food for residents of Muhoroni Constituency who had been affected by floods in the month of April 2018. However, the following observations were noted:

- i. A copy of the report to the CDF Board was not made available for audit review.
- ii. A request for relief food from the Ministry of Interior and Co-ordination was made on 16 April 2018 but minutes approving the same were not made available for audit review.
- iii. The list of beneficiaries was not signed contrary to section 99(3) of Public Finance Management National Government Regulation 2015 stipulate that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates and 104. (1) All receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

Consequently, the propriety of Kshs.3,908,200 could not be confirmed as at 30 June 2018.

4. Unsupported Prior Year Adjustments

Included in the financial statements under note 14 is prior year adjustments of Kshs.496,299 which was not supported. However, contrary to section 99 (3) of the Public Finance Management (National Government) Regulations 2015 stipulate that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

Consequently, the accuracy and validity of Kshs.496,229 could not be confirmed

5. Summary Statement of Appropriation

Included in the financial statements under annex VII is an adjustment receipt of Kshs.14,630,677 composed of opening bank balance of Kshs.3,251,367 the difference of Kshs.11,379,310 representing receipts is not explained nor supported. However, Contrary to section 6(2) and section 7(1) of National Government Constituencies Development Funds Act, 2015 stipulate that unutilized funds are balance available for use in the year under review to fund projects approved in the respective prior financial years.

As a result, the accuracy and validity of the statement of appropriation and the source of Kshs.11,379,310 receipts could not be confirmed as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kisumu Central National Government Constituencies Development Fund 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.

Emphasis of Matter

1. Budget Performance

1.1 Statement of Appropriation Unabsorbed Amount

Analysis of the approved budget of Kshs.101,441,021 revealed that the fund received Kshs.90,061,711 out of which Kshs.73,232,593 was spent on the various budgeted items resulting to under-absorption of Kshs.28,208,498 which is 26% as summarized below:

Item	Approved Budget for 2017/2018 Kshs.	Actual Expenditure 2017/2018 Kshs.	Under Absorption Kshs.	Under Absorption in %
Compensation of Employees	3,536,379	2,891,640	644,739	18
Use of goods and services	13,500,229	6,918,652	6,581,647	49
Transfers to Other Government Units	31,600,000	20,180,000	11,420,000	36
Other grants and transfers	52,804,413	43,242,301	9,562,112	18
Total	101,441,021	73,232,593	28,208,498	26

Consequently, failure to utilize all funds as budgeted/disbursed is an indication that programs and activities are not being implemented as planned hence not achieving the intended objective of improving delivery of goods and services to the residents of Muhoroni Constituency.

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. There were no Key Audit Matters to report in the year under review.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Qualified Opinion] 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. Verification of Projects

Included in the financial statements under note 6 is transfer to other government entities of Kshs.20,180,000 which includes transfers to primary schools of Kshs.10,080,000, out of which Menara primary School received Kshs.1,650,000 and Ogen Primary Schools Kshs.1,650,000 for construction of two classrooms per school. Physical verification to the schools revealed that the floors, though in use had not been properly done to the extent that the floor had cracks and peeling off. Hence poor workmanship was noted. However, contrary to section 139. (1)(a) of Public Finance Management National Government Regulation, 2015 stipulate that the Accounting Officer of a national government entity shall take full responsibility and ensure that

proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse;

Consequently, Menara and Ogen Primary Schools did not achieve value for money for Kshs.3,300,000 expenditures for the year ended 30 June 2018.

2. Change of Names for Bursary Beneficiaries

Included in the financial statements under note 7 is other grants and other payment of Kshs.43,242,301 which includes bursary to secondary school of Kshs.33,851,955 out of which Achego Girls Secondary School was paid Kshs.700,000 vide cheque No.8449 on 14 June 2018 for 69 students and Kshs.40,000 vide cheque No.8156 for 2 students. The following observations were noted:

- i. Nine students from the approved list of 69 students were substituted with five students who were not on the approved list.
- ii. One student (Cecilia Akoth) allocated Kshs.20,000 was given a receipt of Kshs.10,000.
- iii. Kshs.30,000 remained unaccounted for as only 67 students benefited with Kshs.10,000 each.
- iv. Two students were supposed to benefit from the Kshs.40,000 disbursed by allocating Kshs.20,000 to each but instead the school added 2 more students and instead allocating Kshs.10,000 to each.

However, contrary to section 39. (1) of the Constituency Development Fund Act of 2013 stipulate that an accurate record of all disbursements to be made for projects to every constituency shall be kept and updated every month by the Board.

Consequently, the propriety of the expenditure of Kshs.740,000 could not be confirmed.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, 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

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1265. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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.

In preparing the financial statements, management is responsible for assessing the projects 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 Muhoroni National Government Constituencies Development 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Muhoroni National Government Constituencies Development Fund 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 Muhoroni National Government Constituencies Development Fund 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 Muhoroni National Government Constituencies Development Fund 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 Muhoroni National Government Constituencies Development 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 Muhoroni National Government Constituencies Development 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.

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with three dots below the first name.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

3 June 2019