

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Constituencies Development Fund – Mvita Constituency set out on pages 8 to 29, which comprise the statement of financial assets 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, 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 – Mvita 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 Constituency Development Fund Act No. 30 of 2015.

### Basis for Qualified Opinion

#### 1.0 Prior Year

##### 1.1. Accuracy of the Financial Statements

As reported in 2016/2017, the statement of assets reflects comparative fund balance of Kshs.41,973,049 as at 1 July 2016. However, the opening fund balance was at variance with audited closing balance for the year 2015/2016 of Kshs.52,703,219.28 resulting to unreconciled variance of Kshs.10,730,170.28. In addition, the statement of cash flows reflects cash and cash equivalent of Kshs.41,973,050.38 as at 1 July 2016 while the 2015/2016 audited accounts reflected cash and cash equivalents of Kshs.52,703,219.54 as at 30 June 2016 resulting to unreconciled variance of Kshs.10,730,169.16. As a result, the statement of cash flow was inaccurate.

In the circumstances, the accuracy and completeness of the fund balance brought forward of Kshs.41,973,049 and cash and cash equivalent of Kshs.41,973,050.38 as at 1 July 2016 could not be confirmed. This has not been corrected in the year under audit and therefore, bank balance of Kshs.16,431,097 as at 30 June 2018 is not accurate.

##### 1.2. Bank Balances

As reported in 2016/2017, the statement of assets reflects bank balance of Kshs.16,431,097 as at 30 June 2018 (2016/2017 – Kshs.14,549,113). However, included

in bank reconciliation statement are casting errors amounting to Kshs.114,770.57 dating all the way back to the year 2012. In addition, included in outstanding cheques of Kshs.322,269 are three (3) stale cheques totaling 273,390 issued in the month of February and June 2017 and which had not been reversed in the cash book as at time of audit February, 2019. It has not been clearly explained why the errors and the long outstanding cheques have not been corrected and updated in the cashbook for this long.

Further, the audit also noted a payment in the bank of Kshs.190,630 made in August 2017 and which had not been recorded in the cash book as at 30 June 2018. Therefore overstating the cash book balance of Kshs.16,431,097 as at 30 June 2018.

Consequently, the accuracy and completeness of bank balance of Kshs.16,431,097 as at 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 Constituencies Development Fund – Mvita 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 Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matters**

#### **1.0 Budgetary Controls and Performance**

##### **1.1. Revenue Budget**

According to the 2017/2018 National Constituencies Development Fund Board's Constituencies allocation, Mvita Constituency was allocated Kshs.98,189,655. However, according to the statement of receipts and payments, the Fund received a total of Kshs.73,515,516 as transfers from the National Constituencies Development Fund Board resulting to a shortfall of Kshs.24,674,139 or 25% of the targeted revenue.

This may have affected implementation of planned projects for the benefit of the residents of Mvita Constituency. There is need to do proper budgeting on priority basis.

##### **1.2. Expenditure Budget**

The summary statement of appropriations reflect a final budget a final budget of Kshs.142,849,112 for the financial year 2017/2018 against total actual expenditure of

Kshs.71,643,532 resulting to under absorption of Kshs.71,205,580 or 50% as summarized below:

<b>Budget line</b>	<b>Final Budget</b>	<b>Expenditure</b>	<b>Unspent Balance</b>	<b>% of Utilization</b>
Compensation of Employees	3,767,707	2,087,787	1,679,920	55%
Use of goods and services	5,069,362	4,177,515	891,847	82%
Transfers to Other Government Units	50,484,738	45,392,240	5,092,498	90%
Other grants and transfers	74,173,251	19,985,990	54,187,261	27%
Other payments	9,354,054	0	9,354,054	0%
<b>Total</b>	<b>142,849,112</b>	<b>71,643,532</b>	<b>71,205,580</b>	<b>50%</b>

The Fund had a total under-expenditure of Kshs.71,205,580 representing 50% of the budget. This implies that public funds were lying idle at the expense of other deserving areas. Although the management has attributed the situation to delays in receiving funds from the National Government Constituencies Development Fund Board, this may affect delivery of goods and services to the residents of Mvita Constituency contrary to values and principles of public service as provided for under Article 232 (1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

### 1.3. Project Implementation Status

According to the project implementation status report as at 30 June 2018, the following twelve (12) projects with a total budget of Kshs.38,169,267 were not implemented during the period under review:

<b>No.</b>	<b>Project Name</b>	<b>Activity</b>	<b>Funds Disbursed (Kshs.)</b>	<b>Implementation Status</b>
1	Mwembe Tayari toilet	Construction of a public toilet	1,000,000	not started
2	Shimanzi toilet	Construction of a public toilet	1,000,000	not started
3	Old town toilet	Construction of a public toilet	1,000,000	not started
4	Tudor toilet	Construction of a public toilet	1,000,000	not started
5	Tononoka toilet	Construction of a public toilet	1,000,000	not started
6	Star of the sea high school	Installation of windows, doors and furniture for the dining hall	1,300,000	not started
7	Allidina Visram	Purchase of water purifier model nyati 11 500 reverse osmosis plant with a purifying capacity of 500 litres per hour.	1,500,000	not started

No.	Project Name	Activity	Funds Disbursed (Kshs.)	Implementation Status
8	Sharrif Nassir Girls High School	Construction of Social Hall and 2classrooms with finishes.	3,000,000	not started
9	Mvita Primary School	Construction of a youth recreation centre consisting a football pitch(seven a side)and swimming pool.	2,696,854	not started
10	Ronald Ngala Primary School	Construction of a modern school football pitch.	9,995,386	not started
11	Mvita Stima Secondary	Conversion of Ziwani Primary into Secondary	10,000,000	not started
12	Constituency Innovation Hubs	Installation of Satelite antenna, Router, Digital access kit at 4 sites	4,677,027	not started
	<b>Total</b>		<b>38,169,267</b>	

Although two (2) of the projects had been implemented by the time of audit in the month of January, 2019, delayed implementation of projects denies residents intended benefits. Non-implementation of development projects affects delivery of goods and services to the public and the intended purpose of the project may not be realized. It also casts doubt on the effectiveness of the project monitoring and evaluation carried out by the Mvita Constituency Development Fund Committee (CDFC).

#### 1.4. Project Inspection

Audit inspection of seven (7) projects with a total of Kshs.23,200,000 during the month of January 2019 indicated the following state of affairs of the following specific projects: -

No.	Name of Projects	Activity	Amount (Kshs)	Observations
1	Sharif Nassir Girls Secondary	Construction of 2 classroom and social hall	3,000,000	Construction in progress Project not branded
2	Sharif Nassir Girls Secondary School	Construction of Laboratory finishes, Gas fittings, painting, and furniture.	1,600,000	Project complete but not branded
3	Mama Ngina Girls Secondary School	Purchase of water purifier	1,600,000	Plant delivered and in operation. Project not branded
4	Ronald Ngala Primary School	Construction of three storey building	11,000,000	Construction not complete. Project not branded

No.	Name of Projects	Activity	Amount (Kshs)	Observations
5	Mombasa Technical Training Institute	Purchase of Equipment's for Radio Studio	4,000,000	Studio not in operation
6	Tudor Primary School	Fish pond	1,000,000	Project is stalled and not branded
7	Makande Primary School	Fish pond	1,000,000	Project is stalled and not branded
	<b>Total</b>		<b>23,200,000</b>	

The above observations casts doubt on the project supervision undertaken and value for money for public funds. In addition, public funds are going to waste on stalled projects at the expenses of service delivery to the residents. Further, it becomes difficult to confirm the project financiers where the project is not branded. The management should therefore put in place measures to ensure projects are implemented within the set timeframes in order for the public to realize value for money.

## 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 Qualified Opinion / Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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

#### 1.0 Transfer to Other Government Entities

Included in transfer to other government entities of Kshs.45,392,240 for the year ended 30 June 2018 as detailed in note 6 to the financial statements is transfers to primary schools of Kshs.34,692,240. Transfers to primary schools of Kshs.34,692,240 include two disbursements totaling Kshs.9,995,386 to Ronald Ngala Primary School for the construction of a modern football pitch. However, audit verifications revealed that the second disbursement of Kshs.5,995,386 was paid before the project management committee submitted returns on how the first tranche of Kshs.4,000,000 was spent. This is contrary to Section 11 (1 -y) of National Government Constituency Development Fund Regulations, 2016 which states that Constituency Committee shall ensure that the returns are received from project management committees before funding is released for each phase of the project being implemented.

In the circumstances, the management was in breach of the law.

## 2.0 Bank Balances in Closed Projects

Annex 5 to the financial statements reflects bank balances of Kshs.48,227,265.88 in various project management committees' bank accounts as at 30 June 2018. The annex includes balances for six (6) closed projects totaling of Kshs.2,007,525 and which had not been refunded to the Fund's main account as detailed below:

No.	PMC	Balance as at 30/06/2018 (Kshs.)
1	Makupa Primary School	159,928
2	Tudor Primary School	125,864
3	Mbheni Primary School	465,081
4	Sacred Heart Primary School	391,303
5	Ronald Ngala Primary School	517,052
6	Sereni Primary School Library	348,297
	<b>Total</b>	<b>2,007,525</b>

This is contrary to Section 12 (8) of National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account. Therefore, the management was in breach of the laws.

## 3.0 Unutilized Funds

Included in the list of project management committees' bank balances of Kshs.48,227,265.88 at annex 5 to the financial statements are six (6) projects with total disbursement of Kshs.15,000,000 as disbursed in the year 2016 as detailed below:

No.	Project Name	Activity	Date of Disbursement	Amount (Kshs.)
1	Mwembe Tayari public toilet	Construction of a toilet	06/12/2016	1,000,000
2	Shimanzi public toilet	Construction of a toilet	06/12/2016	1,000,000
3	Old town public toilet	Construction of a toilet	20/12/2016	1,000,000
4	Tudor public toilet	Construction of a toilet	20/12/2016	1,000,000
5	Tononoka public toilet	Construction of a toilet	20/12/2016	1,000,000
6	Mvita Stima Secondary	Conversion of Ziواني Primary into Secondary	06/12/2016	10,000,000
	<b>Total</b>			<b>15,000,000</b>

Information available indicates that the toilet projects could not be implemented because the activity falls under devolved functions. In addition, the Kshs. 10,000,000 for conversion of Ziwani Primary into a secondary school has been lying in the project management committee's bank account since year 2016 after the NG-CDF Board declined to approve request to reallocate the funds to construct of student hostels at Technical University of Mombasa. The management has not clearly explained why the above funds have not been returned to the main account to await reallocation. This implies allocation of funds to non-priority projects at the expense of more deserving projects that would improve service delivery to the residents of Mvita 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 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 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 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 such 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 ability of the National Constituencies Development Fund – Mvita Constituency 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 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 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 National Constituencies Development Fund – Mvita Constituency 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 National Government Constituencies Development Fund – Mvita Constituency'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 National Government Constituencies Development Fund – Mvita Constituency 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 National Government Constituencies Development Fund – Mvita 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**

**11 April 2019**