

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND (NG-CDF) - MWINGI CENTRAL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund (NG-CDF) - Mwingi Central Constituency set out on pages 13 to 44, 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund (CDF) - Mwingi Central 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 do not comply with the National Government Constituencies Development Fund Act, 2015.

Basis for Adverse Opinion

1.0 Accuracy of the Financial Statements

1.1 Inaccurate Brought Forward Balances

The financial statements for the year ended 30 June, 2018 reflects a comparative 2016/2017 balance of Kshs.9,839,319 in respect to ten (10) items. However, the audited 2016/2017 financial statements reflected a balance of Kshs.26,547,336 for the same items resulting to unreconciled variance of Kshs.16,708,017 as detailed below:

	Items	2017/2018 Financial Statements (Kshs)	2016/2017 Audited Financial Statements (Kshs)	Variences (Kshs)
	Payments			
1	Office Rent	-	120,000	(120,000)
2	Office and general supplies and services	393,200	273,200	120,000
3	Fuel, oil & lubricants	-	600,000	(600,000)
4	Routine Maintenance - Vehicles and other transport equipment	1,071,039	471,039	600,000
5	Basic wages of contractual employees	2,169,384	1,925,976	243,408
6	Other personnel payments	-	166,800	(166,800)
7	Constructions of Buildings	-	3,500,000	(3,500,000)

	Items	2017/2018 Financial Statements (Kshs)	2016/2017 Audited Financial Statements (Kshs)	Variences (Kshs)
8	Purchase of Office Furniture and Fittings	-	2,500,000	(2,500,000)
9	Acquisition of Land	-	2,295,000	(2,295,000)
	Cash and bank balances			
10	Equity Bank Ltd, Mwingi Branch Account Number - 0590260983402	6,205,696	14,695,321	(8,489,625)
		9,839,319	26,547,336	(16,708,017)

In the circumstance, the accuracy of the financial statements balances amounting to Kshs.9,839,319 for the year ended 30 June 2018 cannot be confirmed.

1.2 Inaccuracy in the Statement of Financial Assets

The statement of financial assets as at 30 June 2018 reflects Kshs.420,258 in respect to prior year adjustments which appears like a balancing figure in the financial statements as the respective details and supporting documents were not availed for audit verifications. In addition, the statement of financial assets and note 13 to the financial statement reflects Kshs.6,205,696 in respect to fund balance brought forward from audited 2016/2017 financial statements. However, the audited 2016/2017 financial statements reflects Kshs.14,695,321 as bank account balances resulting to unexplained and unreconciled variance of Kshs.8,489,625.

In the circumstances, the accuracy of the of financial statements balances as at 30 June 2018 cannot be ascertained.

1.3 Cash and Cash Equivalents

Note 10A to the financial statements reflects Kshs.26,405,312 in respect to bank balances as at 30 June 2018. However, the respective bank reconciliation statement reflects Kshs.27,296,937 in respect to un-presented cheques out of which Kshs.2,748,528 had become stale as at the time of this audit in January, 2019 but the same had not been replaced or reversed in the cash book.

In the circumstances, the cash and cash equivalents balance of Kshs.26,405,312 reflected in the financial statements as at 30 June, 2018 is understated by Kshs.2,748,528.

1.4 Inaccuracy in the Statement of Receipts and Payments

The statement of receipts and payments for the year ended 30 June 2018 reflects a nil balance in respect to acquisition of assets while note 8 to the financial statements reflects Kshs.2,200,000 on the same item resulting to unexplained variance of Kshs.2,200,000 between note 8 and the statement of receipts and payments.

In addition, note 5 to the financial statements reflected a balance of Kshs.1,000,000 in respect to training expenses while the ledger reflected Kshs.802,100 for the same item resulting to an unexplained or reconciled variance of Kshs.197,900.

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 cannot be ascertained.

2.0 Use of Goods and Services

2.1 Fuel, Oil & Lubricants

Note 5 to the financial statements for the year ended 30 June 2018 reflects Kshs.6,450,098 in respect to use of goods and services procured during the year under review. However, the ledger reflects fuel, oil and lubricants worth Kshs.300,000 which is not included in these financial statements and also its supporting documentations including quotations, evaluation report and fuel register were not availed for audit review.

In the circumstances, it was not possible to ascertain the completeness, accountability and value for money Kshs.6,450,098 in absence of the fuel, oil and lubricants expense of Kshs.300,000 for the year ended 30 June 2018.

2.2 Routine Maintenance – Vehicles and Other Transport Equipment

Note 5 to the financial statements for the year ended 30 June, 2018 reflects Kshs.6,450,098 in respect to use of goods and services which include Kshs.25,600 in respect to routine maintenance – vehicles and other transport equipment. However, procurement documents including quotations, evaluation reports, invoices and delivery notes availed revealed that Kshs.285,619 was spent on the same item resulting to a unexplained understatement of the financial statements by Kshs.260, 019.

In the circumstances, the validity and accuracy of Kshs.25,600 in respect to routine maintenance – vehicles and other transport equipment balance for the year ended 30 June, 2018 cannot be confirmed.

2.3 Unsupported Training Expenses

Note 5 to the financial statements for the year ended 30 June, 2018 reflects Kshs.6,450,098 in respect to use of goods and services which include Kshs.1,000,000 in respect to training expenses and which did not have supporting documentation including bus tickets/work tickets, attendance registers, time table of the courses attended and payment schedules. In the circumstances, the propriety and value for money for the Kshs.1,000,000 training expenses for the year ended 30 June, 2018 cannot be ascertained.

2.4 Committee Expenses

Note 5 to the financial statements for the year ended 30 June 2018 reflected Kshs.6,450,098 in respect to use of goods and services and which include Kshs.4,235,910 in respect to committee expenses which comprises of Kshs.1,775,710 and which was not accounted for and Kshs.2,460,200 paid to facilitate Constituency Development Fund Committee (CDFC) members for project inspection visits in six wards, bursary cheques distribution and oversight meetings in the constituency which does not have supporting documentations including attendance register, projects status reports, work tickets, signed minutes.

In the circumstances, the propriety and value for money for Kshs.4,235,910 on committee expenses for the year ended 30 June, 2018 cannot be ascertained.

2.5 Domestic Travel and Subsistence

Note 5 to the financial statement for the year ended 30 June 2018 reflects Kshs.6,450,098 in respect to use of goods and services and which include Kshs.236,800 in respect to domestic travel and subsistence. However, the supporting documentations including bus tickets/work tickets, imprests warrants and purpose of travel were not availed for audit verification.

In the circumstances, the propriety and value for money for the Kshs.236,800 domestic travel and subsistence balance for the year ended 30 June, 2018 of cannot be ascertained.

3.0 Transfer to Other Government Entities

Note 6 to the financial statements for the year ended 30 June, 2018 reflects Kshs.23,700,000 in respect to transfer to other government entities which include Kshs.1,500,000 in respect to transfer to secondary schools and whose disbursement schedules, list of projects and payment records were not availed for audit verifications;

Further, included in the Kshs.1,500,000 is Kshs.250,000 which was disbursed to two secondary schools both totalling to Kshs.500,000 for construction of barbed wire fence using wooden poles and installation of gates. However, physical verification during the month of November, 2018 revealed that the construction had not been done contrary to Section 25 (1) of the National Government Constituencies Development Fund Act, 2015 on funding of projects, which states that any funding under this Act shall be for a complete project or a defined phase of a project and may include the acquisition of land and buildings.

In addition, Kshs.850,000 was disbursed to a secondary school for construction of a classroom but the project had not started as at the time of audit in November 2018. Further, included in the Kshs.850,000 is Kshs.350,000 disbursed to a secondary school which was not supported by an acknowledgement of the receipt by the respective school creating doubts as to whether the amount was sent and received by the school.

In the circumstances, the propriety and value for money for Kshs.500,000 for construction of barbed wire fence and Kshs.850,000 for construction of a classroom both totalling to Kshs.1,350,000 for the year ended 30 June 2018 in respect to transfer to secondary schools could not be ascertained.

4.0 Other Grants and Other Payments

4.1 Bursary Funds

Note 7 to the financial statements for the year ended 30 June, 2018 reflects a balance of Kshs.22,191,470 in respect to other grants and other payments which include Kshs.10,263,000 bursary to secondary schools and Kshs.4,550,000 bursary to tertiary institutions both totaling to Kshs.14,813,000. However, the respective supporting documentation including the bursary application forms, criteria for identifying the bursary beneficiaries and amounts, final list of the approved applicants by the vetting committee and acknowledgement of the funds by the recipients has not been availed for audit verifications.

In addition, the cashbook reflects Kshs.15,194,500 as bursaries to secondary schools and tertiary institutions again resulting to an unexplained variance of Kshs.381,500.

In the circumstances, the accuracy, propriety and value for money for Kshs.22,191,470 in respect to bursaries for the year ended 30 June 2018 cannot be confirmed.

4.2 Emergency Projects

Note 7 to the Fund's financial statements reflects Kshs.7,210,970 in respect to emergency projects which include Kshs.1,742,680 and whose supporting documents including payments vouchers were not availed for audit review.

In the circumstances, the accuracy and value for money for Kshs.1,742,680 in respect to emergency projects for the year ended 30 June, 2018 cannot be confirmed.

Further, a physical verification of emergency projects during the month of November 2018 revealed that Kshs.1,900,000 was disbursed to a secondary school on 8 March 2018 for construction of four classrooms. However, the respective supporting documents including Project Management Committee (PMC) minutes acknowledging receipt of the funds, signatories to the PMC bank account, the bank statements and project status and inspection reports for the emergency projects were not availed for audit verifications. In addition, contracts agreements between the Fund and the contractor and evidence to show that the project was an emergency were not availed for audit review contrary to Section 8(3) of NG-CDF, 2015 which states that Emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

In the circumstances, the propriety and value for money of the Kshs.1,900,000 disbursed to the secondary school for emergency project cannot be ascertained.

4.3 Doubtful Payment of Undelivered Goods for Emergency Projects

Note 7 to the financial statements reflects Kshs.22,191,470 in respect to other grants and other payments which include Kshs.7,210,970 in respect to emergency projects which further includes Kshs.3,168,290 in respect to purchase of emergency building materials for thirteen (13) primary schools and one (1) secondary school from three (3) firms. However, a project inspection carried out in November, 2018 revealed that the building materials have not been received by the said schools.

Further, no evidence was availed for audit review to support that these were emergency projects contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states that emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents. In the circumstances, the propriety, accuracy and value for money for Kshs.3,168,290 in respect to emergency building materials to schools for the year ended 30 June 2018 could not be ascertained.

5.0 Transfer to Primary Schools

5.1 Unimplemented Projects

Note 6 to the financial statements reflects Kshs.23,700,000 in respect to transfer to other government entities which include Kshs 22,200,000 in respect to transfer to twenty-four (24) primary schools from the Constituency Development Fund for the year under review for renovation of one class room in each school. The renovation comprised of re-roofing, floor repairs, painting and installation of doors and windows. However, physical verifications during the month of November, 2018 indicated that six primary schools did not receive funds amounting to Kshs.1,800,000.

In the circumstances, the value for money and accuracy of the Kshs.1,800,000 in respect to transfer to primary schools could not be confirmed.

5.2 Irregular Projects

Note 6 to the financial statements reflected Kshs.23,700,000 in respect to transfer to other government entities which included Kshs.22,200,000 in respect to transfer to primary schools from the Constituency Development Fund which further included Kshs.3,300,000 transferred to eleven (11) primary schools to undertake projects that were not budgeted for in the year under review and the same were not approved by Constituency Development Fund Board. Further, the respective Bills of Quantities (BQs) were not availed for audit review.

In the circumstances, the value for money and accuracy of the Kshs.3,300,000 in respect to transfer to primary schools for the year ended 30 June 2018 could not be confirmed.

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 matter(s) described in the Basis for Adverse Opinion section, I have determined that there were no other key Audit Matters to communicate in my report.

Other Matter

1. Budget Control and Performance

1.1 Revenue Analysis

The statement of appropriation: recurrent and development combined reflects an approved receipt budget of Kshs.135,343,626 for the year ended 30 June, 2018 while the actual receipt was Kshs.80,559,143 resulting to a shortfall of Kshs.54,784,483.

Overall, the fund failed to actualize its budget by Kshs.54,784,483 or 40.5% 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 Mwingi Central Constituency.

1.2 Expenditure Analysis

The statement of appropriation: recurrent and development combined reflects an approved expenditure budget of Kshs.135,343,626 for the year ended 30 June 2018 while the actual expenditure was Kshs.54,574,088. resulting to a under expenditure of Kshs.80,769,538 or 60% as shown below:

Item	Budget (Kshs.)	Actual (Kshs.)	Under (Kshs.)	% of Utilization
Compensation of Employees	2,233,600	2,232,520	1,080	0%
Use of Goods and Services	6,458,495	6,450,098	8,397	0%
Transfer to Other Government Units	67,630,000	23,700,000	43,930,000	65%
Other Grants and Transfers	58,531,531	22,191,470	36,340,061	62%
Acquisition of Assets	490,000	0	490,000	100%
Total	135,343,626	54,574,088	80,769,538	60%

The under expenditure of Kshs.80,769,538 translate to equivalents services expected but denied to the residents of Mwingi Central Constituency. Further, out of the Kshs.80,559,143 receipts only Kshs.54,574,088 was utilized while Kshs.25,985,055 remained un utilized. The funds could have been allocated to other deserving areas that would have improved delivery of goods and services to the constituents. There is need therefore for the management to rebook at its budgeting mechanism with a view to refocusing on areas which will improve service delivery to the residents of Mwingi Central Constituency.

2.0 Project Management Implementation

The summary statement of appropriation: recurrent and development combined reflects an approved expenditure budget of Kshs.135,343,626 for the year under review which was apportioned among various sectors within the constituency namely primary schools, secondary schools, Bursary, emergency projects, administration and committee expenses. However, respective analysis of the project implementation status was not made available for audit purposes. It has therefore not been possible to establish the number of projects completed, ongoing, not started and stalled if any, per each sector together with the total amounts allocated and disbursed for each project.

3.0 Progress on Follow up of Auditors Recommendations

Page 43 of the financial statements for the year under review contains the progress on follow up of auditors recommendations which indicates that one issue/observation on unsupported expenditure of Kshs.22,359,860 raised in the audited 2016/2017 financial statements had been resolved while the other six remained unresolved. However, no documentary evidence was availed to show how the issue/observation was resolved.

In the circumstances, the issues raised in the 2016/2017 Auditor-General's report remained unresolved as at 30 June 2018.

4.0 Presentation of the Financial Statements

The Public Sector Accounting Standards Board (PSASB) stipulates that the financial statements of the Fund should include a separate summary statements of appropriation – recurrent and development and budget execution by programmes and sub- programmes. However, the Fund’s financial statements did not include these statements. In addition, (PSASB) stipulates that the Fund’s financial statements should include the statement of assets and liabilities. However, this statement is not included in the financial statements for the year under review as it has been replaced by another statement named statement of financial assets which is not a requirement as per PSASB.

Further, note 6 to financial statements contains an item referred to as transfer to National Government entities. However, this is misleading as the transfer to National Government entities is the heading of the component but not an item resulting to distortion in alignment between items and their corresponding amounts.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for conclusion

1.0 Outstanding 2016/2017 Projects

Note 1 to the financial statements reflects Kshs.74,353,447 in respect to transfer from other government entities which includes Kshs.30,948,275 in respect to fund brought forward from 2016/2017 and which was budgeted for the completion of the outstanding 2016/2017 projects. However, the funds were used for new projects in the 2017/2018 financial year without evidence that the expenditure was approved by the Board contrary to Section 6(2) of the CDF Act 2015 which states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

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

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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT GOVERNANCE

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and 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 (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 as a going concern/ 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 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 Fund 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 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

29 March 2019