

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF CONSTITUENCIES DEVELOPMENT FUND (NG-CDF) - MWINGI NORTH 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 Constituency Development Fund-Mwingi North Constituency set out on pages 6 to 31, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flow 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, 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 Constituency Development Fund (CDF)-Mwingi North 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 No. 30 of 2015.

Basis for Adverse Opinion

1.0 Accuracy of the Financial Statements

1.1 Variance in the Financial Statements

The Fund's financial statements for the year ended 30 June 2018 reflects a balance of Kshs.4,182,793 in respect to two (2) expenditure items while the respective supporting schedules reflects a balance of Kshs.4,053,509 resulting into an unexplained and unreconciled negative variance of Kshs.129,284 as follows:

| Items | Note | Financial Statements Balance (Kshs.) | Supporting Schedules (Kshs.) | Variance (Kshs.) |
|--------------------------|------|--------------------------------------|------------------------------|------------------|
| Other operating expenses | 5 | 1,921,793 | 1,322,509 | 599,284 |
| Committee expenses | 5 | 2,261,000 | 2,731,000 | (470,000) |
| Total | | 4,182,793 | 4,053,509 | 129,284 |

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

1.2 Inaccuracies in the Statement of Assets

The statement of assets reflects Kshs.1,339,328 in respect to prior year adjustments which appears to be a balancing figure since no supporting documents have been produced for audit review.

In the circumstances, the accuracy of the statement of assets as at 30 June 2018 cannot be ascertained.

2.0 Bank Balances

Stale Cheques

Note 10A to the financial statements reflects Kshs.17,904,424 in respect to bank balances as at 30 June 2018. However, the respective bank reconciliation statement reflects un-presented cheques totaling Kshs.7,134,942 out of which, Kshs.4,489,876 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 validity and accuracy of the cash and cash equivalents balance of Kshs.17,904,424 as at 30 June 2018 is could not be ascertained.

3.0 Project Management Committee (PMC) Bank Balances

As reported in the previous year, annex 5 to the financial statements reflects Kshs.22,056,568 in respect to thirty- nine (39) project management committees (PMC) bank balances. However, the respective bank reconciliation statements, cash books and bank confirmation certificates were not provided for audit review.

In the circumstances, the accuracy of the PMC bank balances of Kshs.22,056,568 as at 30 June 2018 cannot be confirmed.

4.0 Transfers to Other Government Entities - Transfer to Secondary Schools

Note 6 to the financial statements for the year ended 30 June 2018 reflects Kshs.23,858,614 in respect to transfers to other government entities which includes Kshs.8,020,000 in respect to transfers to secondary schools which further includes Kshs.7,270,000 transferred to six (6) secondary schools. However, a physical verification done in December 2018 of the projects undertaken in the six schools revealed the following anomalies in five (5) schools:

| | School | Project | Amount (Kshs) | Observations |
|---|--------------------------------|------------------------------|---------------|---|
| 1 | Ivonangya Secondary School | Construction of a class room | 950,000 | <ul style="list-style-type: none"> Not complete at the time of audit Contract agreement and interim certificates were not availed for audit review. |
| 2 | Masyungwa day secondary school | Construction of a dormitory | 1,420,000 | <ul style="list-style-type: none"> Payments were made without interim certificates of work done |

| | School | Project | Amount (Kshs) | Observations |
|---|----------------------------------|-------------------------------|----------------------|--|
| 3 | Itivanzou Mixed Secondary School | Construction of a dining hall | 950,000 | <ul style="list-style-type: none"> Contract agreement and interim certificate(s) were not availed for audit review. The project is not complete and the contractor was not on site. |
| 4 | Ngomeni girls secondary school | Purchase of a school bus | 1,000,000 | <ul style="list-style-type: none"> The supporting documents including advertisements, quotations, evaluation reports, award of tender minutes, invoices, delivery notes and minutes authorizing withdrawal of funds from the Project Management Committee (PMC) accounts were not availed for audit verifications |
| 5 | Tulanduli secondary school | Construct of a classroom | 950,000 | |
| | Total | | 5,270,000 | |

In the circumstances, the accuracy and value for the money for Kshs.5,270,000 expenditure in respect to transfers to secondary schools during the year ended 30 June 2018 cannot be ascertained.

5.0 Other Grants and Other Payments

5.1 Bursary to Secondary Schools and Tertiary Institutions

Note 7 to the financial statements for the year ended 30 June 2018 reflects Kshs.41,399,057 in respect to other grants and other payments which includes Kshs.22,060,329 and Kshs.7,907,934 in respect to bursaries to secondary schools and tertiary institutions respectively both totaling to Kshs.29,968,263. However, the Kshs.29,968,263 bursaries includes bursaries totaling to Kshs.27,103,926 (90%) whose acknowledgement of receipt by the beneficiary institutions have not been availed for audit verifications.

In the circumstances, the propriety and value for money for the Kshs.27,103,926 expenditure in respect to bursaries for the year ended 30 June 2018 cannot be confirmed.

5.2 Irregular Implementation of Security Projects

Note 7 to the financial statements for the year ended 30 June 2018 reflects Kshs.41,399,057 in respect to other grants and other payments which includes Kshs.5,110,000 in respect to security projects and which was to fund eight (8) projects in various wards within the Constituency. However, project files and physical verification carried out in November, 2018 revealed that included in the Kshs.5,110,000 was Kshs.500,000 in respect to plastering, painting and general finishing of the Deputy County Commissioner's office and whose procurement documents including quotations, evaluation of bids, letter of offers, letter of acceptance and Bill of quantities (BQ) were not availed for audit review.

In addition, included in the Kshs.5,110,000 is Kshs.1,300,000 paid to a contractor for construction of six (6) police cubicles. However, physical verification carried out in the month of December 2018 revealed that although the contractor has been paid Kshs.1,300,000 which is 98% of the Ksh.1,325,000 contract price, only four (4) cubicles (67%) have been constructed and the contractor was not on site.

In the circumstances, the propriety and value for money for the Kshs.500,000 and Kshs.1,300,000 both totaling to Kshs.1,800,000 in respect to security projects for the year ended 30 June 2018 cannot 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 matters described in the Basis for Adverse Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget Control and Performance

1.1 Receipts Analysis

The summary statement of appropriation: recurrent and development combined reflects an approved receipt budget for the year ended 30 June 2018 of Kshs.148,896,098 and an actual receipt of Kshs.94,111,614 resulting to a budgeted receipt shortfall of Kshs.54,784,484.

The deficit in receipts budget of Kshs.54,784,484 (37%) is a reflection of an equivalent services expected and not delivered to the residents of Mwingi North constituency. This is an indicator of improper budget planning process. 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 Mwingi North Constituency.

Expenditure Analysis

The summary statement of appropriation: recurrent and development combined reflects an approved expenditure budget for the year ended 30 June 2018 of Kshs.98,189,656 and an actual expenditure of Kshs.77,546,518 resulting to an under expenditure of Kshs.20,851,703 on three items and over expenditure of Kshs.208,565 on one item as shown below:

| Item Description | Budget Kshs. | Actual Kshs. | Under Kshs. | Over (Kshs) | % |
|------------------------------------|-------------------|-------------------|-------------|----------------|-----|
| Compensation of Employees | 2,336,000 | 1,779,214 | 556,786 | | 24% |
| Use of Goods and Services | 6,501,068 | 6,709,633 | | 208,565 | 3% |
| Transfer to Other Government Units | 32,820,691 | 23,858,614 | 8,962,077 | | 27% |
| Other Grants and Transfers | 52,731,897 | 41,399,057 | 11,332,840 | | 21% |
| Other Payments | 3,800,000 | 3,800,000 | 0 | | |
| Total | 98,189,656 | 77,546,518 | 20,851,703 | 208,565 | |

The under expenditure of Kshs.20,851,703 translates to equivalent services expected but not delivered to the residents of Mwingi North Constituency and an indicator of poor budget making process. Further, the Fund overspent its budget on one item by Kshs.208,565 without approval in form of a supplementary budget contrary to Section 43 (2) of Public Finance Management Act (County Regulations), 2015 which states that County government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund, or supplementary estimates.

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 citizens of Mwingi North Constituency.

2.0 Failure to Utilize Funds

The Fund's statement of receipts and payments for the year ended 30 June 2018 reflects Kshs.16,383,890 in respect to net surplus which represent planned projects that were not implemented for the benefits of residents for Mwingi North Constituency. In addition, the Fund' budgeted receipts were Kshs.148,896,098 against budgeted payments of Kshs.98,189,656 resulting to Kshs.50,706,442 budgeted receipts without corresponding budgeted services to the citizens of Mwingi North Constituency. This is an indication of unbalanced budget and which is contrary to Section 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which states that budget revenue and expenditure appropriations shall be balanced;

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 citizens of Mwingi North Constituency.

3.0 Project Management Implementation

Note 6 and 7 reflects Kshs.23,858,614 and Kshs.41,399,057 in respect to transfer to other government entities and other grants and other payments respectively both totalling to Kshs.65,257,671 for various projects. However, as reported in the previous year, the Constituency Development Fund management did not update the project implementation status report.

In the circumstances, the progress of work on the projects funded during the year under review and their status as at 30 June, 2018 could not be ascertained.

4.0 Progress on Follow up of Auditors Recommendations

The Fund's financial statements at Page 31 reflects the progress on follow up of Auditors recommendations which has stated that all the issues/observations raised in 2016/2017 audited financial statements were resolved. However, this progress report is blank and therefore it has not indicated the issues/observations said to have been resolved and no evidence has been availed for audit review on how the specific issues were resolved.

In the circumstances, it has not been possible to ascertain whether the progress on follow-up of the 2016/2017 financial year Auditors recommendations included in the financial statements for the year under review met its intended objective.

5.0 Other Payments

The Fund's statement of receipts and payments for the year ended 30 June 2018 reflects Kshs.3,800,000 in respect to other payments which is a payment to a consultancy firm to develop a five-year strategic plan for the Fund. However, supporting documents including tender advertisements, letter of acceptance from the winning bidder, regrets from unsuccessful bidders and contract agreements between the firm and the Fund were not availed for audit review.

In the circumstance, the propriety and value for money for the Kshs.3,800,000 expenditure in respect to other payments for the year ended 30 June 2018 could not be ascertained.

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 matter 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 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 statement 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/documents. In addition, PSASB stipulates that the head of finance should indicate his/her Institute of Certified Public Accountant (ICPAK) membership number in the financial statements. However, the head of finance did not do so in the financial statements for the year ended 30 June 2018. Further, the summary of fixed assets register and the Project Management Committee (PMC) balances as at 30 June 2018 included at pages 27 and 28 of the financial statements respectively are both referred to as Annex 4.

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 review so as 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, 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 standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards Cash Basis and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the National Government Constituencies Fund-Mwingi North Constituency 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 National Government Constituencies Development Fund-Mwingi North Constituency 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 way.

Those charged with governance are responsible for overseeing the National Government Constituencies Fund-Mwingi North Constituency 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 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.

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 National Government Constituencies Development Fund-Mwingi North Constituency 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-Mwingi North Constituency 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 National Government Constituencies Development Fund-Mwingi North 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 National Government Development Fund-Mwingi North 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

02 April 2019