

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Mwingi West Constituency set out on pages 8 to 40, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: 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 – Mwingi West Constituency as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalents

Note 10A to the financial statements reflects Kshs.46,397,152 in respect to bank balances as at 30 June 2018. However, the respective bank reconciliation statement reflected Kshs.4,456,114 in respect to unpresented cheques out of which Kshs.2,421,961 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.46,397,152 reflected in the financial statements as at 30 June 2018 is understated by Kshs.2,421,961.

2.0 Bursary Funds

Note 7 to the financial statements reflects Kshs.30,687,808 in respect to other grants and other payments which includes Kshs.13,764,133 and Kshs.7,098,500 in respect to bursaries to secondary schools and tertiary institutions respectively both totaling to Kshs.20,862,633. However, out of the Kshs.20,862,633 bursary disbursements, only

Kshs.6,952,563 was acknowledged as received by the respective institutions while bursaries totaling to Kshs.13,910,070 were not acknowledged as having been received. In addition, the list of bursary applicants was not availed for audit review and therefore it has not been possible to confirm whether those awarded the bursaries had applied and adjudged as needy students.

In the circumstances, it has not possible to ascertain whether Kshs.20,862,633 in respect to bursaries was issued to the needy applicants and whether the Kshs.13,910,070 in respect to bursary disbursements were dispatched to and received by the intended institutions.

3.0 Construction of Buildings

Note 8 to the financial statements reflects Kshs.716,522 in respect to construction of buildings being the amount paid to a contractor for additional works on the construction of the constituency development fund office which had been completed on 17 January 2017. However, the payment did not have supporting documents including authority for the additional works from Sub County public works, details of the works carried out and request for quotations as stipulated in Section 105 of the Public procurement and asset disposal (PPAD) Act 2015 which states that a procuring entity may use a request for quotations from the register of suppliers for a procurement if the estimated value of the goods, works or non-consultancy services being procured is less than or equal to the prescribed maximum value for using requests for quotations or the procurement is for goods, works or non-consultancy services that are readily available in the market.

In the circumstances, the accuracy and value for money for the Kshs.716,522 reflected in the financial statements for the year ended 30 June, 2018 cannot be ascertained.

4.0 Project Management Committee (PMC) Bank Balances

Note 6 and 7 to the financial statements reflects transfers to other Government entities and other grants and other payments of Kshs.11,872,003 and Kshs.30,687,808 respectively both totaling to Kshs.42,559,811 which is earmarked to implement projects in various sectors within the constituency during the year under review. Included in this amount is Kshs.8,569,859 unutilized funds reflected at Annex 3 to the financial statements as project management committee (PMC) bank balances in respect of fifty eight (58) projects. However, the respective bank reconciliations and cash books were not provided for audit review.

In the circumstances, the accuracy of PMC bank balances of Kshs.8,569,859 as at 30 June 2018 cannot be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Mwingi West Constituency in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial

statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budget Control and Performance

1.1 Revenue Analysis

The summary statement of appropriation: recurrent and development combined for the year ended 30 June 2018 reflected budgeted receipts of Kshs.107,123,666 and actual revenue of Kshs.95,748,356 resulting to an unrealized receipts Kshs.11,375,310:

Overall, the fund failed to actualize its budget by Kshs.11,375,310 or 10.6% an indication that some 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 West Constituency.

1.2 Expenditure Analysis

The statement of appropriation: recurrent and development combined for the year ended 30 June, 2018 reflected a budgeted expenditure of Kshs.107,123,666 and actual expenditure of Kshs.49,351,204 resulting in to an under-expenditure of Kshs.57,772,462 (53.9%) on six (6) items as shown below:

Item	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	%
Compensation of Employees	3,520,000	2,020,286	(1,499,714)	42.6%
Use of goods and services	8,594,480	4,044,850	(4,549,630)	52.9%
Transfers to Other Government Units	46,253,801	11,872,003	(34,381,798)	74.3%
Other grants and transfers	47,729,128	30,687,808	(17,041,320)	35.7%
Acquisition of Assets	1,016,522	716,522	(300,000)	29.5%
Other Payments	9,735	9,735	0	
TOTAL	107,123,666	49,351,204	(57,772,462)	

The under-spending of the budget by Kshs.57,772,462 reflected an equivalent services expected and not delivered to the residents of Mwingi West 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 West Constituency.

2.0 Project Management Implementation

Note 6 and 7 to the financial statements for the year under review reflects transfers to other Government entities and other grants and other payments of Kshs.11,872,003 and Kshs.30,687,808 respectively both totaling to Kshs.42,559,811 which is earmarked to implement projects. However, it has not been possible to ascertain the status of the projects worth Kshs.42,559,811 as important details such as location of projects, total funds allocated per project, funds disbursed and date of completion for projects budgeted for in 2016/2017 but implemented in 2017/2018 were not produced for audit verifications. In the circumstances, it has not been possible to ascertain the implementation status of projects worth Kshs.42,559,811 for the year ended 30 June 2018.

3.0 Progress on Follow up of Auditors Recommendations

The financial statements for the year under review at Page 31 reflects a progress on follow up of Auditors recommendations showing that all the issues/observations raised in the 2016/2017 Auditor-General's report have been resolved. However, this progress on follow up of Auditors recommendations is incomplete as the issues reflected therein relates to the 2015/2016 Auditor-General's report while the progress on the issues raised the 2016/2017 report has not been reflected.

In the circumstances, the progress on follow up of Auditor recommendations for the financial year 2016/2017 has not been included in the financial statements for the year ended 30 June 2018.

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 matter(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Presentation of the Financial Statements

The Public Sector Accounting Standards Board (PSASB) stipulates that the financial statements for any National Government entity should include a separate summary statements of appropriation for recurrent and development and a budget execution by programmes and sub- programmes. However, the Fund's financial statements for the year ended 30 June 2018 did not include these statements/documents.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON 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 matter(s) 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 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's or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are

in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 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 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 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.



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

Nairobi

21 March 2019