

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – SABOTI 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 – Saboti Constituency set out on pages 1 to 19, which comprise the statement of financial assets as at 30 June 2018, and the statements of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the constitution of Kenya and Section 35 of the Public Audit Act, 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-Saboti 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 the National Government Constituencies Development Fund Act, 2015

Basis for Qualified Opinion

1. Use of Goods and Services

Included in the use of goods and services figure of Kshs.6,146,878. under utilities, supplies and services figure of Kshs.1,364,035 is total of Kshs.1,074,000 which in turn includes Kshs.24,000 being payments for commuter and lunch allowances made to a student on a three months attachment that was not authorized and supported with minutes as per the requirement of Section 4(5) of the NG-CDF Act, 2015. Further, it was noted that the balance of Kshs.1,050,000 was paid through payment vouchers that were signed by only one officer on behalf of other the signatories and without monitoring and evaluation report.

In the circumstances, it was not possible to ascertain propriety of Kshs.1,074,000 included in the use of goods and services incurred during the year under review.

2. Undisbursed Receipts

The summary statement of appropriation: recurrent and development combined revealed that Kshs.21,505,085, relating to prior year, 2016/2017 was not received to finance the

planned programs at the Constituency. Further, it was noted that during the year under review, the Fund received two AIEs totaling Kshs.40,850,481 as detailed below:

AIE No. and Date	Financial Year	Kshs
A855996 of 30/1/2018	Receipt relates to FY 2017/2018	5,500,000
A 892927 of 24/4/2018	Receipt relates to FY 2017/2018	35,350,481
		40,850,481

As at 30 June 2018, the Fund had a cumulative undisbursed budget funds by the NG-CDF Board of Kshs.67,464,948, comprising Kshs.21,505,085 for 2016/2017 and Kshs.45,959,863 for the year under review.

In the circumstances, the Fund failed to provide the planned services and programmes to Saboti Constituents.

3. Cash and Cash Equivalents

Analysis of bank reconciliation statements for the month of June 2018, revealed stale cheques totaling Kshs.59,800 which had not been reversed in the cash book as detailed below;

Date	Cheque No.	Payee	Amount Kshs.
10.2.2017	5864	Transnzoia Diocese	16,000
6.7.2017	6714	Sacho High School	3,300
6.7.2017	6728	Soti Academy	3,300
6.7.2017	6759	St. Charles Lwanga Bwake	6,600
6.7.2017	6924	Eregi TTC	3,300
6.7.2017	6937	Kenya Institute of Studies	3,300
6.7.2017	6957	King College Eldoret	3,300
31.8.2017	7117	KMTC Kwale	10,000
31.8.2017	7124	St. Brendan Catering College	3,300
31.8.2017	7143	Kibabii University	6,600
29.9.2017	7148	Soil Conservation Sec. School	400
29.7.2017	7149	St. Teresa's Girls Bikeke Girls	400

Date	Cheque No.	Payee	Amount Kshs.
			59,800

In the circumstances, it was no possible to confirm that the cash and cash equivalents balance of Kshs.9,683,900 reflected as at 30 June 2018 is fairly stated.

4. Other Grants and Transfers

4.1 Unsupported Tree Planting Exercise

Included in the other grants and transfers figure of Kshs.33,203,114 is Kshs.1,736,207 for environmental projects of which as per the CDFC Executive meeting, held on 10 May 2018 vide Min 4/EXE/NG-CDFSAB resolved that 60 institutions were to benefit from tree planting fund to the tune of Kshs.28,936 for each institution. The total of Kshs.1,736,207 was released to the Environment Project Management Committee whereby the committee was to account for the amount with evidence of public participation and that planting of trees was a priority to the constituency. However, the procurement process including advertisement, request for quotations, evaluation report, tender award/acceptance, supply including delivery note, name and rubber stamp of the receiving institution and inspection report from the CDF Committee indicating that progress on the ground of which were never availed for audit verifications.

4.2 Unfair Distribution of Bursary Funds

Included in the other grants and transfers figure of Kshs.33,203,114 is Kshs.280,000 distributed to various schools for various students of which there was no official CDF committee minutes on their identification was availed for audit review. Further, in a review of 2017/2018 bursary records, it was noted that majority of the beneficiaries were allocated an average of Kshs.3,300 per student. However, twenty-one (21) beneficiaries were given varied higher figures totaling Kshs.280,000 without providing specific criteria used to identify the beneficiaries and the amount allocated to them as detailed below;

PV No. and Date	Name of School	Name of student	Cheque No.	Kshs
2 of 6/7/17	Langas Secondary School	Seni Imbiaka	6601	10,000
30 of 30/6/18	Bukembe SA Sec School	Nelson Wabwile	7320	15,000.
30 of 30/6/18	Bukembe SA Sec School	Noel N. Wabwile	7320	15,000
30 of 30/6/18	Butere Girls Sec	Lewnida Faith Mbithi	7330	20,000
30 of 30/6/18	Chewoyet Boys	Kelvin Bii Rono	7348	10,000
30 of 30/6/18	Kamusinde Boys	Simon Kakhaba	7418	10,000
30 of 30/6/18	Kitale School	Sinwa David	7466	10,000
30 of 30/6/18	Kitale School	Amunga Rehema	7467	15,000
31 of 30/6/18	Soil Conservation Sec.	Moses Wafula Kituyi	7620	15,000
31 of 30/6/18	St. Josephs Boys	Francis Odhiambo	7660	10,000
31 of 30/6/18	St Martins Mwibale Sec	Shadrack Sifuna	7673	20,000

PV No. and Date	Name of School	Name of student	Cheque No.	Kshs
31 of 30/6/18	St. Monica's Girls	Ursulah Oyugi	7690	10,000
31 of 30/6/18	St. Teresa's Bikete Boys	Simon Kimboi	9719	10,000
31 of 30/6/18	St. Trinity Michael	Cherotich Lydia	7729	10,000
31 of 30/6/18	Tuwan Girls Sec	Rose Mutonyi	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Purity Njoroge	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Patience Wasike	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Pauline Nasaka	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Mary Wambua	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Mildred Akinyi	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Lilian Ekai	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Linda Naliaka	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Faith Wairimu	7756	10,000
31 of 30/6/18	Tuwan Girls Sec	Christabel Chepkosgei	7756	10,000
				280,000

In the circumstances, it was not possible to ascertain fairness and equity in awarding bursaries to needy students during the year under review.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Saboti 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 described in the Basis for Qualified Opinion section of my report, I have determined that there are no key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Report 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.

Basis for Conclusion

1. Budgetary Management

1.1 Late Submission of the Budget Proposals

The Fund submitted its budget a year later by February 2018 instead of February 2017 for it to be included in the Annual Government budget for the financial year 2017/ 2018. Further, the project proposals were also submitted almost a year later in February 2018. Therefore, project proposal of Kshs.86,310,344 for financial year 2017/2018 was not approved by the Board.

1.2 Late Remittance of Funds from the NGCDF Board/ National Treasury

Scrutiny of the Project GFS Code-list (list of approved projects) shows that out of project proposal of Kshs.86,810,344 for the financial year 2017/2018, the NGCDF Board approved Kshs.5,500,000 on 30 January 2018 and released the same on 5 February, 2018 and next tranche of Kshs.75,845,945 was approved on 24 April 2018 and only Kshs.35,350,481 was disbursed from the Board and received on 19 April 2018. This implies the first portion of the budget of Kshs.5,500,000 was approved after six months and received eight months after commencement of the financial year 2017/2018. As at 30 June 2018, over Kshs.45,959,863 had not been released by the NGCDF Board/ Treasury.

1.3 Statement of Appropriation: Recurrent and Development

Comparison of the budget against actual expenditure for the year under review revealed the following position;

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Transfers from CDF Board	86,810,344	21,505,085	108,315,429	50,976,256	57,339,173	47.1%
Total Receipts	86,810,344	21,505,085	108,315,429	50,976,256	57,339,173	47.1%
Payments			-		-	
Compensation of Employees	1,739,039	312,960	2,051,999	1,447,364	604,635	70.5%
Use of goods and services	6,041,433	1,132,759	7,174,192	6,146,878	1,027,314	85.7%
Transfers to Other Government Units	34,177,413	5,348,277	39,525,690	0	39,525,690	0.0%
Other grants and Transfers	33,856,034	13,450,744	47,306,778	33,203,114	14,103,664	70.2%

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Receipts						
Acquisition of Assets	723,838	0	723,838	495,000	228,838	68.4%
Other Payments	10,272,587	1,260,345	11,532,932	0	11,532,932	0.0%
Total	86,810,344	21,505,085	108,315,429	41,292,356	67,023,073	38.1%

The under-utilization of Kshs.67,023,073 is an indication that the Fund did not implement the planned programs for the benefit of the constituents.

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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Report on Effectiveness Of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

IT Internal controls

The Fund did not have the Information Technology Strategic policy nor strategic plan, active IT steering committee either at the constituency level or at the Board level, formally approved IT Security policy to ensure data confidentiality, documented and approved processes to manage upgrades, formally documented and approved process to manage upgrades, environmental controls such as fire suppression systems, fire extinguishers and air conditioning systems. However, the Fund manager is trained on IT in the Constituency and such training has not been extended to other staff members.

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 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 to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the 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 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.

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 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 cease 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 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

09 July 2019