

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Saku Constituency set out on pages 7 to 38, which comprise the statement of *assets* as at 30 June 2018, and the statement of *receipts and payments*, statement of cash flows and summary statement of appropriation – recurrent and development 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 - Saku 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

### Basis for Qualified Opinion

#### 1.0 Comparative Balances

Note 15.1 and Annex 4 to the financial statements for the year under review reflects comparative 2016/2017 balances of Kshs.20,066,721 and Kshs.10,615,180 in respect to pending accounts payable and fixed assets respectively. However, the audited financial statements for the year ended 30 June 2017 reflected balances of Kshs.16,973,590 and Kshs.10,609,600 for the two items resulting into a variance of Kshs.3,093,131 and Kshs.5,580 respectively.

In the circumstances, the accuracy of the comparative 2016/2017 balances reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

#### 2.0 Other Grants and Other Payments

##### 2.1 Construction of Karare Chief's Office

Note 7 to the financial statements reflects other grants and other payments balance of Kshs.30,562,588 which includes Kshs.6,896,310 in respect to security which further includes Kshs.1,998,900 paid out for the construction of Karare Chief's office during the

year under review but whose contract had been awarded in the previous year - 2016/2017. A physical verification carried out in the month of January 2019 and a review of the bill of quantities revealed that even though the office was complete and in use, electrical installation works worth Kshs.158,150 and roof gutters worth Kshs.63,600 all totaling to Kshs.221,750 had not been done. Further, no handover report, bank statements and project file were availed for audit review.

In the circumstances, the accuracy and value for money for the Kshs.1,998,900 expenditure for the year ended 30 June 2018 could not be confirmed.

## **2.2 Refurbishment of Gadamoji Division Headquarters Office Block and Residence**

Note 7 to the financial statements reflects other grants and other payments of Kshs.30,562,588 which includes Kshs.6,896,310 for security which further includes Kshs.1,998,900 paid out for the construction of Gadamoji Assistant County Commissioner's office and official residence during the year under review. Records made available shows that the contract was awarded through quotation. However, it was noted that the procurement method for works of Kshs.1,998,500 was above the set limit of Kshs.500,000 for class C entities for using quotations contrary to the first schedule threshold matrix annexed to the Public Procurement and Disposal (Amendment) Regulations, 2013. A physical verification of the project carried out in the month of January 2019 revealed that although the office is complete, it is yet to be utilized for the intended purposes as it is being used as an office, classroom, store and for residential purposes by Kubiqallo primary school which is a neighboring school. In addition, no handing over report has been availed for audit review.

In the circumstances, the accuracy and value for money for the Kshs.1,998,900 expenditure for the year ended 30 June 2018 could not be confirmed.

## **2.3 Construction of Sagante Chief's Office**

Note 7 to the financial statements reflects other grants and other payments of Kshs.30,562,588 which includes Kshs.6,896,310 for security which further includes Kshs.1,999,510 paid out for the construction of Sagante Chief's office during the year under review. A physical inspection of the project carried out in the month of January 2019 revealed that the office was in use. However, the Bill of Quantities revealed that works totaling to Kshs.223,500 which were to be undertaken had not been done as at the time of the project verification despite certificate of completion having been issued by the Sub County works officer in February, 2018.

Further, the works contract was procured through request for quotation method which was however above the set limit of Kshs.500,000 for class C entities for using quotations contrary to the first schedule threshold matrix annexed to the Public Procurement and Disposal (Amendment) Regulations, 2013. In addition, there was no handover report of the project on completion.

In the circumstances, the accuracy and value for money for the Kshs.1,999,510 expenditure for the year ended 30 June 2018 could not be confirmed.

## **2.4 Un-Supported Bursaries to Secondary and Tertiary Institutions**

Note 7 to the financial statements reflects other grants and other payments of Kshs.30,562,588 which includes Kshs.13,076,474 and Kshs.7,278,000 for bursaries to Secondary schools and Tertiary institutions respectively both totalling to Kshs.20,354,474. However, no acknowledgment receipts from the institutions, names of the institutions and list of applicants were availed for audit review.

In the circumstances, the accuracy, propriety and value for money for the Kshs.20,354,474 expenditure for the year ended 30 June 2018 could not be confirmed.

## **3.0 Poor Workmanship at Goro Rukesa Secondary School**

Note 6 to the financial statements reflects transfers to other government entities of Kshs.28,446,090 which includes Kshs.13,279,045 for transfer to secondary schools which further includes Kshs.1,196,385 incurred for the construction of an administration block at Goro Rukesa secondary school during the year under review. The project commenced in the financial year 2016/2017 with an initial funding of Kshs.3,000,000 which together with Kshs.1,196,385 funding during the year under review, translated to a total funding of Kshs.4,196,385. However, the respective project returns, completion certificates and evidence that the Fund is holding 10% retention fee were not made available for audit review. In addition, although the project is said to be complete, physical inspection carried out in the month of January 2019 revealed that the block had cracks on the floor and on the walls which is an indication of poor workmanship.

In the circumstances, the accuracy and value for money for the Kshs.4,196,385 expenditure for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Saku NG-CDF 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 matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

## **1.0 Budgetary Control and Performance**

### **1.1 Income Analysis**

The combined summary statement of appropriation: recurrent and development reflects budgeted receipts of Kshs.144,848,534 and actual receipts of Kshs.90,064,051 resulting to under receipts of Kshs.54,784,483.

Overall, the fund failed to actualize its budget by Kshs.54,784,483 or 38% 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 Saku Constituency.

In the circumstances, the residents of the Constituency may not have received the expected services equivalent to the Kshs.54,784,483 for the year ended 30 June 2018.

## 1.2 Expenditure Analysis

The combined summary statement of appropriation: recurrent and development reflects budgeted expenditure of Kshs.144,848,533 and actual expenditure of Kshs.66,734,524 resulting to an under expenditure of Kshs.78,114,009 as follows;

Item	Final Budget (Kshs)	Actual Expenditure (Kshs)	Under Absorption (Kshs)	Under Absorption (%)
Compensation of employees	3,615,008	1,602,443	2,012,565	56
Use of Goods and Services	8,242,244	6,123,403	2,118,841	26
Transfer to other Government units	67,985,132	28,446,090	39,539,042	58
Other Grants and Transfers	64,906,149	30,562,588	34,343,561	53
Allocation awaiting approval by NG-CDF'S Board	100,000	-	100,000	100
<b>Totals</b>	<b>144,848,533</b>	<b>66,734,524</b>	<b>78,114,009</b>	<b>54</b>

In overall, the Fund under spent its budget by Kshs.78,114,009 of the total budget allocation. The funds could have been allocated to other deserving areas that would have improved delivery of goods and services to the residents of Saku Constituency. There is need therefore for the management to re-look at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the citizens of Saku Constituency

In the circumstances, the residents of the Constituency did not get expected services equivalent to the Kshs.78,114,009 under expenditure for the year ended 30 June 2018.

## 2.0 Project Implementation Status

The Fund had planned to implement 41 projects during the year under review at a total cost of Kshs.81,185,559. However, 29 projects worth Kshs.27,675,000 had not started while 7 projects worth Kshs.45,320,559 were on going and only 5 projects worth Kshs8,190,000 had been completed as at 30 June 2018 as follows;

<b>Project Status</b>	<b>Sector</b>	<b>Amount allocated (Kshs)</b>	<b>Amount Disbursed (Kshs)</b>	<b>No of Projects</b>
<b>Completed</b>	<b>Education</b>	<b>8,190,000</b>	<b>4,535,475</b>	<b>5</b>
<b>On going</b>	Education	15,281,207	4,188,888	4
	Emergency Reserve	5,137,931	1,791,874	1
	Bursary	24,901,421	20,354,474	2
	<b>Sub Total</b>	<b>45,320,559</b>	<b>26,335,236</b>	<b>7</b>
<b>Not Started</b>	Education	21,225,000	0	23
	Security	2,450,000	0	3
	Others	2,000,000	0	1
	Constituency Sports Tournaments	1,000,000	0	1
	Environmental Activities	1,000,000	0	1
	<b>Sub Total</b>	<b>27,675,000</b>	<b>0</b>	<b>29</b>
	<b>Grand Total</b>		<b>81,185,559</b>	<b>30,870,711</b>

In view of the foregoing, the constituents did not get the expected services equivalent to Kshs.27,675,000 and Kshs.45,320,559 both totaling to Kshs.72,995,559 being the budgeted for but unimplemented and ongoing projects respectively for the year ended 30 June 2018. This is an indication of inappropriate project implementation mechanism. Therefore, there is need for the Constituency Development Fund Management to review its project planning mechanism with a view to prioritizing those projects which will be implemented during the financial year resulting to higher impact into improving service delivery to the citizens of Saku Constituency.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

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

### Basis for Conclusion

#### 1.0 Presentation and Disclosure of Financial Statements

The Public Sector Accounting Standards Board (PSASB) requires that a report on follow up of previous year's audit recommendations be included as part of the annexures to the financial statements. However, the report on follow up of previous year's audit recommendations annexed at pages 25 to 38 of the financial statements indicates that all previous audit issues have been resolved but management has not indicated how the issues have been resolved. In addition, the board requires the Head of Treasury to indicate his/her Institute of Certified Public Accountants of Kenya (ICPAK) membership number in the financial statements but Head of Treasury has not indicated his membership number in the financial statements for the year under review.

In the circumstances, the presentation and disclosure of the financial statements for the year ended 30 June 2018 did not comply with the prescribed PSASB format.

## **2.0 Use of Non-Prequalified Suppliers**

Note 5 to the financial statements reflects a balance of Kshs.6,123,403 in respect to use of goods and services which included a total payment of Kshs.362,426 paid to three suppliers who were not in the list of prequalified suppliers. This is contrary to Section 95 (3) of the Public Procurement and Assets Disposal Act, 2015 which requires that a procuring entity shall invite tenders from only the approved persons who have been prequalified.

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 to 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 matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for 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 Saku NG-CDF's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the National Government either intends to liquidate the Saku NG-CDF 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 Saku NG-CDF'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 noncompliance. 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 Saku NG-CDF'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 Saku NG-CDF'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 Saku NG-CDF 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 Saku NG-CDF 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**

**08 April 2019**