

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund-Samburu West Constituency set out on pages 6 to 28, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, 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, in all material respects, the financial position of National Government Constituencies Development Fund-Samburu 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 do not comply with the National Government Constituencies Development Fund Act, 2015.

Basis for Adverse Opinion

1. Transfers from CDF Board

The statement of receipts and payments reflects transfers from NGCDF Board amounting to Kshs.86,810,345 for the year ended 30 June 2018. However, the summary statement of appropriation-recurrent and development combined reflects actual transfers from NGCDF Board of Kshs.87,954,040 and thus, resulting in unexplained variance Kshs.1,143,695. Consequently, the accuracy of the transfers from NGCDF Board for the year ended 30 June 2018 could not be confirmed.

2. Undisclosed Expenditure

The statement of receipts and payments reflects total payments of Kshs.87,273,339 for the year ended 30 June 2018. However, examination of the payment vouchers provided for audit revealed undisclosed payments amounting to Kshs.7,045,000 made during the financial year 2017/2018 that were not captured in the ledger and financial statements, respectively. No explanation was provided for the omission of the expenses in these financial statements.

Consequently, the accuracy and completeness of the payments of Kshs.87,273,339 reflected in the financial statements for the year ended 30 June 2018 could not be ascertained.

3. Unsupported Expenditure on Bursaries

Disclosed in Note 7 to the financial statements under other grants and other payments are amounts of Kshs17,414,080 and Kshs.16,567,379 paid as bursary-secondary schools and bursary-tertiary institutions, respectively to the needy students in various learning institutions. However, no acknowledgement letters from the students or institutions were presented for audit review to confirm that the bursaries were actually received and accounted for.

As a result, the validity, completeness and accuracy of the bursary payments totalling Kshs.33,981,459 could not be ascertained.

4. Lack of Fixed Assets Register

The statement of receipts and payments reflects an expenditure of Kshs.10,155,399 in respect of acquisition of assets in the year ended 30 June 2018. As disclosed in Note 8 to the financial statements, the assets acquired includes construction of buildings – Kshs.4,800,000 and purchase of office furniture and general equipment – Kshs.5,355,399. However, the management did not maintain during the year under review a register of assets as required by regulation 143 of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the existence of the assets and, completeness and accuracy of the records relating to the assets procured during the year at a total cost of Kshs.10,155,399 could not be ascertained.

5. Comparative 2016/2017 Figures

The comparative figures for 2016/2017 reflected in the statement receipts and payments for the year under review differs with the corresponding figures in the Notes to the financial statements as shown below:

Item	Comparative Figure for 2016/2017 Kshs.	Note No.	Amount as per the Notes
Compensation of Employees	7,389,800.00	4	Nil
Use of Goods and Services	1,218,372.00	5	Nil
Transfers to other Government entities	71,061,047.00	6	Nil
Other Grants and Other Payments	57,524,170.00	7	Nil
Acquisition of Assets	2,165,521.00	9	Nil

No explanations were provided for the above anomalies.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund-Samburu 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 adverse 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 discussed in the Basis for Adverse Opinion and Basis for Conclusions on Lawfulness and Effectiveness in the Use of Public Resources Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, because of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on Lawfulness and Effectiveness in the Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Project Implementation Analysis

Audit verification revealed that the NGCDF – Samburu West had budgeted to implement a total of sixty-nine projects during 2017/2018 financial year. As at 30 June 2018, fifty-three projects were complete but sixteen had not been started as summarized below:

Project Category	No of Projects Budgeted	No of Projects Implemented	Projects not Started	Amount Budgeted Kshs.	Amount Spent Kshs.	Actual as % of Budget
Transfer to Other Government Units	28	27	1	30,350,000	21,177,099	70%
Other Grants and Transfers	41	26	15	51,025,618	46,705,999	92%
Total	69	53	16	81,375,618	67,883,098	83%

No satisfactory explanation was provided for the failure to implement all the projects as planned.

2. Unutilized Funds

Included in transfers to primary schools' expenditure of Kshs.5,950,730 under Note 6 to the financial statements is an amount of Kshs.750,000 disbursed to two Project

Management Committees (PMCs) for electrical installation at Sura Adoru primary school - Kshs.150,000 and construction of classroom at Lpartuk primary school - Kshs.600,000. However, a review of the PMCs bank accounts revealed that the funds had not been utilized as at 30 June 2018. No explanation was provided for the failure to utilize the funds for the intended purposes.

3. Unutilized Classroom at Nkopelian Primary School

During the year under review, the CDF management disbursed an amount of Kshs.1,000,000 for construction of a classroom at Nkopelian primary school. Physical verification undertaken revealed that although the project had been completed, the classroom had not been put to use. No reason was given for the failure to put to use the facility as intended.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on Lawfulness and Effectiveness in the Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that the internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Failure to Use and Maintain Imprest Warrants

Examination of records maintained by the CDF office revealed that during the year under review, the fund manager was issued with several imprests totalling Kshs.4,617,000. However, the management did not use or maintain imprest warrants to record and account for the amounts issued. Therefore, imprests accountability procedures and processes were weak.

Consequently, the authenticity of the payments of Kshs.4,617,000 made during the year ended 30 June 2018 could not be ascertained.

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 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 ability of National Government Constituencies Development Fund-Samburu West Constituency 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 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 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 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 sustaining 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 Constituencies Development Fund-Samburu West 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

17 April 2019