

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – SEME 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 Seme National Government Constituencies Development Fund set out on pages 7 to 30 which comprise the statement of financial assets and liabilities as at 30 June 2018 and the statement 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 Seme National Government Constituencies Development Fund 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 Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Inaccuracy in the Financial Statements

##### 1.1.1 The Financial Statements Comparative Figures

The comparative balances reflected on the financial statements under receipts and payment balance brought forward from previous year differ from the amount in the previous year certified accounts, as shown below:

Item	Balance as per Current Year Comparative Kshs.	Balance as per Certified Report of 30 June 2017 Kshs.	Variance Kshs.
Compensation of employees	2,007,753	1,788,032	219,721
Transfers to Other Government Units	76,227,819	82,127,819	(5,900,000)
Other grants and transfers	44,319,126	38,446,129	5,872,997
<b>Statement of Assets</b>			
Bank balances(as per cash book)	2,742,333	2,935,053	(192,720)

Current receivables-Outstanding Imprest	1,034,000	0	1,034,000
Surplus/Deficit	(26,895,028)	(26,702,309)	192,719

**Statement of Cashflow**

Compensation of Employees	2,007,753	1,788,032	219,721
Transfers to Other Government Units	76,227,819	82,127,819	(5,900,000)
Other grants and transfers	44,319,126	38,446,129	5,872,997
Net cash flow from operating activities	(24,610,024)	(24,417,305)	(192,719)

Further, the accounts are normally countersigned by the Chairman to take full responsibility of the statements. It was noted that the sub- county Accountant signed on the statements without any written authority. However, contrary to Section 43(a) of the Public Finance Management National Government regulations, 2015 stipulate that an Accounting Officer shall sign financial statements thereby making himself or herself responsible for their correctness.

**1.1.2 Net Increase in Cash and Cash Equivalents**

Included in the statement of receipts and payments is surplus of Kshs.1,699,169 while the net increase in cash and cash equivalents is Kshs.1,907,669 resulting to difference of Kshs.208,500 and no evidence was availed for the increase. However, contrary to Section 43 (a) of the Public Finance Management National Government regulations, 2015 stipulate that an Accounting Officer shall sign financial statements thereby making himself or herself responsible for their correctness.

Consequently, accuracy and validity of the financial statements for the year ended 30 June 2018 could not be ascertained.

**1.2 Bank Balances**

Included in the statement of assets and liabilities as at 30 June 2018 under note 10A reflects bank balances of Kshs.4,650,002. However, the bank reconciliation statement reflects payments in the cash book not recorded in the bank statement (unpresented cheques) of Kshs.7,777,440, out of which stale cheques totaling Kshs.400,870 as at 30 June 2017 had not been reversed in the cash book nor replaced with other cheques. Further, contrary to Section 90(3) of Public Finance Management (National Government) Regulations, 2015 provides that Accounting Officers shall ensure any discrepancies noted during bank reconciliation exercise, are investigated immediately and appropriate action taken including updating the relevant cash books.

Consequently, the accuracy and validity of the bank balance of Kshs.4,650,002 as at 30 June 2018 could not be confirmed.

**1.3 Unutilized Funds**

Included in the financial statements under annex 3 is the unutilized funds of Kshs.33,990,608 as at 2017-2018 (2016-2017:Kshs.30,948,213) differ with the summary statement of appropriation recurrent and development combined column of adjustments reflects Kshs.45,514,606. However, contrary to Significant accounting policies note 10 states that unutilized funds consist of bank balances in the constituency account and previous year(s) balances not yet disbursed by the Board at the beginning of the financial year. These balances are available for use in the year under review to fund projects approved in the respective prior financial years consistent with Section 6(2) and Section 7(1) of National Government Constituencies Development Fund Act, 2015.

Consequently, the accuracy and validity of the bank balance of Kshs.45,514,606 could not be confirmed as at 30 June 2018.

#### **1.4 Unsupported Pending Bills**

Included in the financial statements under Annex 1 is analysis of pending accounts payable of Kshs.265,606 appearing as the outstanding cost of repairs to GKA647T by CMC, no documents were made available such as invoices and suppliers' statements to support the liability. However, contrary to section 99 (3) of the Public Finance Management (National Government) Regulations 2015 stipulate that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

As a result, the propriety of the expenditure of Kshs.265,606 could not be confirmed.

#### **1.5 Understated Bank Charges**

Included in the financial statements under note 5 is use of goods and services which includes bank charges of Kshs.169,218 while the bank reconciliation availed for audit reflects a figure of Kshs.213,187 resulting to a difference of Kshs.43,970 represents bank charges in the bank reconciliation as at 30th June, 2018 which were already paid in the bank but were not reflected as part of payments for FY 2017/2018. Contrary to Section 43(a) of the Public Finance Management National Government regulations 2015 stipulate that an Accounting Officer shall sign financial statements thereby making himself or herself responsible for their correctness.

Consequently, the accuracy and validity of bank charges of Kshs.169,218 could not be confirmed

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Seme National Government Constituencies Development Fund 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 opinion.

## Emphasis of Matter

### 1. Budget Performance

The Fund's approved budget for the year 2017/2018 amounted to Kshs.132,324,951 comprising of 2017/2018 allocation of Kshs.86,810,345 and balance brought forward from 2016/2017 of Kshs.45,514,606. The analysis of comparison of budget and actuals is as summarized below:

Item	Approved Budget for 2017/2018 Kshs.	Actual Expenditure 2017/2018 Kshs.	Under Absorption Kshs.	Under Absorption in %
Compensation of Employees	2,709,689	2,159,742	549,947	79.7
Use of Goods and Services	9,256,263	3,670,645	5,585,618	39.7
Transfers to Other Government Units	69,152,295	37,787,125	31,365,170	54.6
Other Grants and Transfers	51,061,955	28,881,517	22,180,438	56.6
Other Payments	144,750		144,750	
<b>TOTAL</b>	<b>132,324,951</b>	<b>72,499,028</b>	<b>59,825,923</b>	<b>54.8</b>

During the period, the Fund incurred an expenditure of Kshs.72,499,028 representing 55% of the approved budget resulting in under-absorption of Kshs.59,825,923.

Consequently, failure to utilize all funds as budgeted/disbursed is an indication that programs and activities are not implemented as planned hence not achieving the intended objective of improving delivery of goods and services to the residents of Seme Constituency.

### 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. There were no Key Audit Matters to report in the year under review.

## REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

### Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the procedures performed, 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.

## **Basis for Conclusion**

### **1. Non-Existing Construction of Pediatric Research Unit**

Included in the financial statements under note 6 is transfers to tertiary institutions figure of Kshs.9,485,000, which includes an expenditure of Kshs.4,000,000 in relation to construction of a pediatric research unit paid to the project management committee vide payment voucher number 102. However, the construction works had not started as at the time of audit in February 2019 while the title deed to confirm ownership of the land where the pediatric research unit was to be constructed was not availed for audit review. Contrary to section 43(d) of Public Finance Management Regulation 2015, which stipulate that an accounting officer shall manage, control and ensure that policies are carried out efficiently and wastage of public funds is eliminated and section 25, (1) of the National Government Constituencies Development Fund Act (NG-CDF), 2015 requires that any funding under this Act shall be for a complete project or a defined phase of a project and may include the acquisition of land and buildings.

Consequently, the propriety of the expenditure of Kshs.4,000,000 could not be confirmed and the delay in the construction of the facility affects service delivery to the public and also they have not got value for money.

### **2. Non-Existing Construction of Laboratory**

Included in financial statements under note 6 is transfer to other government entities of Kshs.37,787,125 which includes transfers to tertiary institutions figure of Kshs.9,485,000 out of which an amount of Kshs.5,485,000 paid to Kombewa Kenya Medical Training College (KMTC) project management committee vide payment voucher 101 in relation to construction of two hostels at the campus site. However, the following issues were noted during audit review;

- i) The amount of Kshs.5,485,000 was a part payment for the entire amount allocated of Kshs.9,000,000 in the approved code list for the financial year 2016/2017. The allocated amount of Kshs.9,000,000 was to be utilized in construction of two hostels, two lecture classrooms and one resource centre.
- ii) On 7th February 2018, the principal through the letter referenced KMTTC/KOMB/DEV./VOL I/2 requested for reallocation of funds from construction of hostels to construction and equipping of a demonstration laboratory. The reallocation of Kshs.4,000,000 was approved by CDF Board on 30 July 2018 for the same.
- iii) Project verification in February 2019 established that the two lecture classrooms and one resource centre had been completed and were in use. However, labelling had not been done.
- iv) Construction of the demonstration laboratory had not started as at the time of audit in February 2019.

However, contrary to section 43(d) of Public Finance Management Regulation 2015, stipulate that an accounting officer shall manage control and ensure that policies are carried out efficiently and wastage of public funds is eliminated.

Consequently, the propriety of the expenditure of Kshs.5,485,000 could not be confirmed and the delay in the construction of the facility affects service delivery to Kombewa Kenya Medical Training College (KMTC) and also they have not got value for money.

### **3. Administration Police Line/Houses not in Use**

Included the financial statements under note 7 is other grants and payments of Kshs.28,881,517 which includes security expenditure of Kshs.6,900,000. Physical verification revealed the following anomalies in regard to implementation of security projects:

#### **(i) Nyaguda AP Line-construction of 4 AP Units - Complete but not in use**

Though the building were complete, the security officers were yet to be deployed since the standard number is five, and an armory is not yet built. The project might not get additional funding due to change of Government Policy which directs that officers to rent houses outside the lines.

#### **(ii) Kolenya Police Post-Purchase of Land**

The PMC had opted to first acquire land for construction of the units. An amount of Kshs.900,000 for purchase of land alone had been spent. The project might not get additional funding due to change of Government Policy which directs that officers to rent houses.

#### **(iii) Kipasi AP Line-Construction of 2 AP Units**

Though the project had been completed, the security officers were yet to be deployed since their standard number is five, and an armory is not yet built.

The project might not get additional funding due to change of Government Policy which directs that officers to rent houses outside the lines. However, contrary to section 74 (6 (b)) of Public Finance Managements Regulations 2015, stipulate that an accounting officer of a national government entity shall ensure that whenever projects are completed, the project assets including buildings, plant, vehicles, furniture, fittings and equipment are properly recorded and handed over to the accounting officer in accordance with the financing agreement; (c) where no time frame is provided for the project, ensure that the assets are handed over within three months from the date of the closure of the project;

Consequently, there is no value for money since the completed units are yet to be used by the security officers.

My responsibility is to express a conclusion based on the review. The review 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 limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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 procedures performed, 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.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1265. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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.

In preparing the financial statements, management is responsible for assessing the projects 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 Seme National Government Constituencies Development 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Seme National Government Constituencies Development Fund 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 review 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.



Further, in planning and performing the audit of the financial statements and review 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 Seme National Government Constituencies Development 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 Seme National Government Constituencies Development Fund's 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 Seme National Government Constituencies Development 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 Seme National Government Constituencies Development 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**

**24 April 2019**