

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SUBA SOUTH 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 Suba South National Government Constituency Development Fund set out on pages 14 to 51, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flow 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, 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 Suba South National Government Constituency 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 the National Government Constituency Development Fund Act, 2015.

### Basis for Qualified Opinion

#### 1. Transfers to Other Government Units

The statement of receipts and payments indicates that transfers to other government units as Kshs.47,600,000. Included in this amount were transfers to primary and secondary schools of Kshs.24,400,000 and Kshs.23,200,000 respectively. Transfers of Kshs.2,500,000 were made for the construction of one class room in each of the following schools:

Item	Amount (Kshs)
Malongo Primary School	600,000
Nyawacha Primary School	700,000
Ongoro Primary School	600,000
Sawanka Primary School	600,000
<b>Total</b>	<b>2,500,000</b>

However, no specifications for the works to be undertaken complete with quantities, lengths and amounts had been prepared before the works were undertaken. It was therefore not possible to confirm that what was intended was done. Consequently, the accuracy and validity of the Kshs.2,500,000 transfers to other government units could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Suba South 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

### Budget Performance

The comparison of budget against actual amounts is shown below:

Receipt/Expense	Final Budget (Kshs)	Actual (Kshs)	Difference (Kshs)	% Utilization
<b>Receipts</b>				
Transfers from NG CDF Board	98,248,700	86,869,390	11,379,310	88
<b>Total</b>	<b>98,248,700</b>	<b>86,869,390</b>	<b>11,379,310</b>	<b>88</b>
<b>Payments</b>				
Compensation of Employees	2,817,232	2,154,613	662,619	76
Use of goods and services	9,525,874	9,344,024	181,850	98
Transfers to other Government Units	54,300,000	47,600,000	6,700,000	88
Other grants and transfers	30,147,130	25,859,200	4,287,930	86
Acquisition of Assets	289,207	53,000	236,207	18
Other payments	1,169,257	-	1,169,257	0
<b>Total</b>	<b>98,248,700</b>	<b>85,010,837</b>	<b>13,237,863</b>	<b>87</b>

Management explained that the variances noted above were as a result of delays in the disbursement of funds to the constituency on time. The delay has the effect of denying the constituents the benefits accruing from the proposed projects.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

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.

## REPORT ON COMPLIANCE, 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. Procurement of Contractors and Suppliers

##### 1.1 Water Projects

Included in transfer to other government units amount of Kshs.47,600,000 is Kshs.10,000,000 transferred to two schools for the drilling and equipping of two water projects at a cost of Kshs.5,000,000 each. There is no evidence that the tender was advertised nationally as per section 96 of the Public Procurement and Asset Disposal Act 2015 for open national tenders. Further, borehole drilling for one of the projects was done on a land parcel where neither the School nor the Government has its ownership documents. There was no documentary evidence to show that the owner had agreed to give the land for community development. Consequently, the propriety of Kshs.10,000,000 is doubtful.

##### 1.2 Non-availability of Prequalified Suppliers and Contractors

Included in transfer to other government units amount of Kshs.47,600,000 is Kshs.9,300,000 transferred to various schools as shown below:

School	Details	Amount (Kshs)
God Oloo Mixed Secondary School	Construction of boys dormitory from foundation to window level	500,000
St. Merceline Kigoto Mixed Secondary School	Completion of dining hall from roofing, fittings and plastering	800,000
God Bura Secondary School	Initial and final allocation towards co-funding of a school bus purchased on loan by the school	1,000,000
Hon. John Mbadi Oma Secondary School	Construction of Science Laboratory from foundation to fittings	1,500,000
Kisaku Secondary School	Completion of science laboratory, fittings, plastering and piping works	800,000
Ngeri Girls Secondary School	Construction of one classroom from foundation to painting works	800,000
Rowo Secondary School	Construction of one classroom from foundation to painting works	700,000

Ragwe Secondary School	Completion of science laboratory, slabbing, roofing, fittings and plastering	600,000
St Joseph Olando Mixed Secondary School	Completion of two classrooms; fitting, Plastering and Painting	400,000
Seka Mixed Secondary School	Completion of administration block from lintel to painting	600,000
St Antony Nyandiwa Secondary School	Completion of dormitory plastering to painting	400,000
Nyenga Mixed Secondary School	Construction of a kitchen: Roofing, fittings, plastering and painting	1,200,000
		<b>9,300,000</b>

None of the contractors or suppliers of the above projects were selected from the approved prequalified list of suppliers as required by the Public Procurement and Asset Disposal Act of 2015 sections 93 (1) and 106 (2). Consequently, the propriety of the expenditure could not be confirmed.

## 2. Use of Emergency Funds

The statement of receipts and payments indicates that other grants and transfers were Kshs.25,859,200. Included in this amount was Kshs.4,500,000 for emergency projects which was used for rehabilitation of Mumisa Primary School – Magunga access road. The fund management has not provided adequate justification for use of emergency funds for the road works in accordance with section 8(3) of the National Government Constituency Development Fund 2015. There is also no evidence that the tender was advertised nationally as per section 96 of the Public Procurement and Asset Disposal Act 2015 for open national tenders. Further, a physical visit to the above mentioned road revealed glaring poor workmanship as only a section of the road had been graveled and drainage works (gabions) were incomplete. Consequently, the propriety of the Kshs.4,500,000 is doubtful.

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, 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**

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 ability 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 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 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 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 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 Fund 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 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**

**23 August 2019**