

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BUMULA 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 - Bumula Constituency set out on pages 9 to 33, which comprise the statement of 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 effects of the matter 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 - Bumula 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

Failure to Maintain Project Cash Books

Included in transfers to other government units figure of Kshs.38,700,000 are disbursements totalling Kshs.4,600,000 in favour of various project management committees (PMCs). However, the Project Management Committees did not maintain cashbooks or other suitable records to properly account for the disbursements contrary to Section 74 (6)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer of a national government entity shall cause to be kept and maintained proper books of accounts and records in respect of all projects and donations; and Section 10 of the National Government Constituencies Development Fund Act, 2015 which states that the sums set aside under Sections 8 and 9 shall be properly accounted for and proper books of accounts shall be kept and returns made to the Constituency Committee for that constituency on how the sum have been used.

In addition, the projects for which the funds were disbursed had various challenges and thus compromising their delivery as budgeted and designed as highlighted below.

Project	Voucher Number	Amount (Kshs)	Observation
Mateka Chief's Camp	6885	900,000	This was for construction of police houses at a contract price of Kshs.4,186,000. The structure has been roofed but there was no cash book to record the financial transactions by the project management committee.
Wacholi Primary	6869	800,000	The works were tendered and awarded to an Engineering Company on 30 April 2018. The project was not complete and work stalled in November 2018.
Khasoko Assistant County Commissioner Office	6883	900,000	Office complete and in use but no project cashbook was maintained.
Mabusi Location Chiefs camp.	6884	500,000	This was a labour contract for plastering, flooring and painting. No project cash book maintained by project management committee.
New Mutua Primary	6871	1,500,000	The amount was disbursed for construction of three classrooms at a contract price of Kshs.4,568,932. No project cash book was maintained by project management committee.
Total		4,600,000	

Under the circumstances, the accountability for the Kshs.4,600,000 disbursed to project management committees for the year ended 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Bumula 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, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

1.1 Budget Performance

The Fund had an approved budget of Kshs.100,175,335 for the financial year 2017/2018. During the same period, the Fund recorded an expenditure of Kshs.79,718,424 representing 80% of the budget resulting in an under expenditure of Kshs.20,456,911 representing 20% of the budget as detailed below:

Item	Approved Budget (Kshs.)	Actual Expenditure (Kshs)	Variance (Kshs)	Under/over Absorption %
Compensation of Employees	2,490,000	1,312,932	1,177,068	47
Use of Goods and Services	10,358,610	8,169,960	2,188,650	21
Transfers to Other Government Units	38,750,000	38,700,000	50,000	0
Other Grants and Transfers	31,220,388	30,892,836	327,552	1
Acquisition of Assets	350,000	642,696	(292,696)	(84)
Other Payments	4,677,027	0	4,677,027	100
Un-approved Allocation	12,329,310	0	12,329,310	100
Total	100,175,335	79,718,424	20,456,911	20

Failure to utilise funds as allocated is an indication that services and approved programs were not delivered, and therefore the budget did not meet the intended objectives of improving delivery of goods and services to Bumula Constituents.

Further, the Fund incurred an expenditure of Kshs.642,696 on acquisition of assets against an approved budget of Kshs.350,000, resulting in unauthorised expenditure of Kshs.292,696. Although the management explained that the over-expenditure was as a result of changes in prices and change in scope of office fittings, no evidence of NGCDF Board approval was availed to support the over expenditure which is approximately 84% above the approved budget.

Consequently, the over expenditure of Kshs.292,696 was irregular.

1.2 Project Implementation Status

According to the project implementation status report availed for audit review, Fund had planned to implement ninety-eight (98) projects in 2017/2018. As at 30 June 2018, forty-five (45) projects funded for Kshs.49,939,654 were complete, thirty eight (38) funded for Kshs.38,024,138 were on-going while eight (8) funded for Kshs.8,667,027 had not started. In addition, two (2) projects

funded for Kshs.1,500,000 had stalled, while five (5) projects inclusive of one (1) with a funding of Kshs.48,836 had no current implementation status. Details of implementation status are as detailed below:

Status	No. of Projects	Value (Kshs)
Not Given	5	48,836
Complete	45	49,939,654
Not Yet Started	8	8,667,027
Ongoing	38	38,024,138
Stalled	2	1,500,000
Total	98	98,179,655

No reason has however been provided for the failure to implement all the projects as budgeted. Consequently, the residents of Bumula Constituency have not benefited from the incomplete projects.

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 matter described in the Basis for Qualified Opinion 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

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 Basis for Conclusion 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

Failure to Maintain Staff Records

During the audit, personal records for two employees were not availed for audit review to establish particulars of their employment and the terms of service despite the payroll showing that they were earning salaries. One of the employees earned Kshs.30,000 per month with effect from April 2018 while the other earned Kshs.19,323 from July 2017 resulting to a total of Kshs.321,876 paid during the year under review.

Consequently, the validity of their employment and the amounts paid to them 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 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.

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's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 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

13 August 2019