

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - OL JOROOROK 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 - Ol Joroorok Constituency set out on pages 8 to 31, which comprise the statement of assets and liabilities as at 30 June 2018, 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, 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 - Ol Joroorok Constituency 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

1.0 Inaccuracies in the Financial Statements

1.1 Overstatement of Cash Book Balance

The statement of assets as at 30 June 2018, reflects cash and cash equivalents balance of Kshs.6,226,738. However, the cash book balance and the board of survey report reflects a figure of Kshs.6,076,246 resulting into unexplained and unreconciled variance of Kshs.150,492. In the circumstance, accuracy of the reported cash and cash equivalents balance of Kshs.6,226,738 cannot be confirmed.

1.2 Unpresented Cheques

Bank reconciliation statements as at 30 June 2018, includes a figure of Kshs.1,596,382 as unpresented cheques. Included in this figure are stale cheques totaling Kshs.246,271 which relates to several payees and have not been reversed in the cash book. In the circumstance, the reported cash and cash equivalents balance of Kshs.6,226,738 is not fairly stated.

1.3 PMC Bank Balances

The project management committee bank balances indicated against each school as at 30 June 2018 totaling Kshs.13,250,000 under Annex 4 has not been supported by bank statements and bank certificates for the period under review. In the circumstance, the balances could not be confirmed as existing.

1.4 Prior Year Adjustments

Note 14 to the financial statements disclosed a figure of Kshs.2,470,887 in respect of prior year adjustments of bank balance. However, no disclosures were made in the financial statements in regard to the nature of errors, the year the errors occurred and the amount of correction in the books. Although, the prior year adjustment is reported in note 14, the statement of receipts and payments, statement of assets and liabilities and the statement of cash flows all reflect nil balance of prior year adjustment. In the circumstance, the accuracy and completeness of the assets and liabilities of the Constituency Development Fund cannot be confirmed.

1.5 Bursary

Note 7 to the financial statements reported other grants and other payments of Kshs.28,190,326 that include bursary to secondary of Kshs.15,606,609 and tertiary Kshs.4,997,000, both totaling Kshs.20,603,609 against approved budgets of Kshs.16,960,344 resulting to an over expenditure of Kshs.3,643,265. Verified records revealed that bursary to secondary was Kshs.14,800,109 and tertiary was Kshs.5,015,000 totaling Kshs.19,815,109. Further analysis revealed that bursaries to secondary schools were overstated by Kshs.339,765 while that of tertiary was also overstated by Kshs.18,000. Further, out of the total bursary of Kshs.20,603,609 that was reported only Kshs.9,647,400 was acknowledged leaving a unacknowledged balance of Kshs.11,130,209. In addition, there was no shortlisting done and there was no evidence of vetting of applicants since there were no academic reports as those forms were blank. It is therefore not clear whether any approval was done and recorded. In addition, there were no returns availed for audit from each ward to confirm the beneficiaries. In the circumstance, the other payments and other grants of Kshs.28,190,326 could not be confirmed as fairly stated.

1.6 Undisclosed Budget Variances

The summary statement of appropriation recurrent and development combined reported a final receipts budget of Kshs.94,842,383 represented by original budget of Kshs.79,810,345 and adjustments of Kshs.15,032,038. However, the project code list presented for audit indicates a figure of Kshs.74,310,344.83 and Kshs.11,379,310.34 for normal and supplementary respectively, totaling Kshs.85,689,655.17. The difference of Kshs.9,152,728 between the two records is an overstatement and has not been explained.

1.7 Unutilized Funds

Note 15.3 reported a nil balance on unutilized funds. During audit records provided revealed that the Constituency Development Fund Committee of OI Joroorok Constituency received an additional funding of Kshs.53,716,979.12 in 2018/19 to cater for expenditures not settled during the 2017/18 financial year. However, these pending bills were not disclosed under unutilized funds note 15.3 to the financial statements. Under the circumstance, the accuracy of the nil balance on unutilized funds cannot be confirmed.

1.8 Summary Statement of Appropriation

The summary statement of appropriation, recurrent and development combined note (VI) shows that, the original budget in respect of transfers from National Government Constituency Development Fund Board was Kshs.79,810,344.83 and an adjustment of Kshs.15,032,038 resulting into a final budget of Kshs.94,842,383 against the reported actual expenditure of Kshs.42,972,738. However, the financial statements have not disclosed in a way of a note the material variances between the actual expenditures and the budgeted amounts as required by Section 137 (2) (c) of the Public Finance Management National Regulations 2015.

1.9 Misinformation of Budget Figures

The attached remarks of the Chairman of National Government Constituency Development Fund of Oljoroorok disclosed in page 4 of the financial statements, shows that during the year the Constituency was allocated Kshs.91,189,655.16, consisting of Kshs.79,310,344.33 as normal allocation and Kshs.11,379,310 as an additional allocation. However, the project code list presented for audit indicates a figure of Kshs.74,310,344.83 and Kshs.11,379,310.34 respectively giving a total allocation of Kshs.85,689,655.17. The difference of Kshs.5,499,999.99 between the two reports has not been reconciled. Further, the original budget in respect of transfers from National Government Constituency Development Fund Board was Kshs.79,810,344.83 with an adjustment of Kshs.15,032,038 resulting into a final budget of Kshs.94,842,383. The information provided in the Chairman's report is therefore not in line with the statement of appropriation and is misleading. In view of the above, the statement of appropriation, the project proposals and the project code lists are inconsistent in terms of the budgetary reports and therefore the accuracy of the budget cannot therefore be confirmed.

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

Revision of Financial Statements

The Fund revised financial statements which have indicated significant differences in the balances from the financial statements submitted by 30 September 2018. However, these revisions have not been supported by journal entries to show the corrections that necessitated the revision for errors and misstatements. In the circumstances, the revisions could not be supported by double entries.

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 Non-Implemented Project

The Board had budgeted for Kshs.1,500,000 for the completion of administrative block at Kiheo secondary school in 2017/18. However, site visit at the school on 21 March 2019 revealed that no works had started in the school. It was not satisfactorily explained with proper justification that the project had not started nine (9) months into the financial year and no evidence of any works on the ground even after the project had already been approved for funding. In the circumstance, the intended objective has not been realized.

1.2 Unsupported Expenditures

Included in statement of receipts and payments are use of goods and services amounting to Kshs.4,195,593. However, expenditure totaling Kshs.1,938,147 was not supported by relevant ledgers and supporting schedules. In the circumstance, the expenditure on use of goods and services could not be confirmed to be a proper charge to public funds.

1.3 Fuel, Oil and Lubricants

During the audit process, it was revealed that an expenditure amounting to Kshs.840,000 in respect of fuel was not accounted for. The fuel register that was maintained did not show the detail order number used to draw fuel and the respective quantity of fuel drawn. Further, detailed orders for July 2017 to December 2017 were not availed for audit verification. In the circumstance, it was difficult to confirm the amount of fuel that was drawn and when it was drawn. Also, it was not possible to confirm that the said fuel expenditure was utilized for the intended purpose.

1.4 Emergency Projects

Note 7 reported other grants and other transfers of Kshs.28,190,326 that include emergency projects of Kshs.5,012,717 with a budget of Kshs.5,137,931. Scrutiny of payment records, revealed that expenditure amounting to Kshs.2,862,717 was related to ordinary routine CDF expenses that were not emergency in nature, contrary to National Government Constituency Development Fund Act, 2015 Section 8 which states that the emergency shall be construed to mean an 'urgent, unforeseen need for expenditure'. In the circumstance, the expenditure could not be confirmed to be proper charge to public funds.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management 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

1.0 Weak Internal Controls

1.1 Lack of Segregation of Duties

There was lack of segregation of duties on bursary payments and disbursements. The Fund Account Manager was authorizing payments, collecting the cheques from the sub-county treasury and dispatching the same as evidenced by the payment vouchers and the outwards dispatch cheque register.

1.2 Lack of Internal Audit Findings

The internal auditor charged with the responsibility of auditing and giving reasonable assurance on financial matters and transactions of the Constituency Development Fund of Ol-Jororok did not issue any audit findings during the period 2017/2018. As a result, the Fund Account Manager had no audit findings from the internal auditor to table before the National Government Constituency Development Fund committee.

1.3 Lack of Risk Management Policy

The constituency development fund of Ol Jororok did not have a risk management policy in place contrary to Treasury Circular Number 3/2009 of 23 February 2009.

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 continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the International Public Sector Accounting Standards (Cash Basis) of accounting unless the management of the National Government Constituency Development Fund Ol Joroork Constituency 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 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 Fund's ability to continue as a going concern. 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.

- 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

26 August 2019