

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SHINYALU 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 - Shinyalu Constituency set out on pages 7 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 summary statement of appropriation: recurrent and development combined, 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 - Shinyalu 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

1. Compensation of Employees

The statement of receipts and payments reflects compensation of employees figure of Kshs.1,095,898 while the schedule and payroll records availed for audit review revealed a figure of Kshs.1,055,898 resulting in an unreconciled and unexplained variance of Kshs.40,000.

Consequently, the accuracy of the compensation of employee figure of Kshs.1,095,898 for the year ended 30 June 2018 could not be confirmed.

2. Cash and Cash Equivalents

2.1 Bank Reconciliation

The statement of financial assets reflects cash and cash equivalents balance of Kshs.39,090,121 as at 30 June 2018 whereas the reconciled cashbook reflected a balance of Kshs.38,724,613 resulting in an unreconciled and unexplained variance of Kshs.365,508. An audit review procedure performed on the bank reconciliation statements for the month of June 2018 revealed unrepresented cheques totalling Kshs.12,100,260 out of which, cheques with total value of Kshs.3,844,304 relates to the period between February 2015 and February 2017 and were therefore stale. However, no explanation was provided for not reversing the stale cheques in the cash book.

Further, a post balance sheet review on the reconciliation statements as at end of March 2019 showed that additional cheques totalling Kshs.692,266 of the unrepresented cheques

had become stale by 31 December 2018 but remained un-cleared from the bank reconciliation statements. In addition, review of the bank reconciliation reflects payments in bank not in cashbook totalling Kshs.177,550 in respect of bank charges relating to the period between September 2016 and May 2018. However, no reason was provided for not recording the bank charges in cashbook. The statement further reflected receipts in cashbook not recorded in bank amounting to Kshs.4,277,558 which related to the period March 2017 and prior years.

2.2 Irregular Cheque Replacement

During the year under review, payments were made to two schools at Kshs.1,000,000 to Shamiloli Primary School for construction of two classrooms and Kshs.1,000,000 to Shivakala new primary school for construction of pit latrines vide cheque Nos.008480 and 008481 respectively dated 3 June 2018. The payments were indicated as replacement of stale cheques according to CDFC MIN. No.38/14/7/2018, through which the Constituency Development Fund Committee (CDFC) approved the allocation of the funds to the two schools. The projects were indicated to be labour-based projects. Subsequently, the fund account manager together with the respective Project Management Committees (PMCs) of the schools withdrew the Kshs.2,000,000 in July 2018 to implement the projects for the two schools. However, as at the time of audit in March 2019, the implementation of the two projects had not commenced and no reason was provided. In addition, no explanation or documentary evidence was provided in support of the withdrawn funds totalling Kshs.2,000,000.

Consequently, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.39,090,121 as at 30 June 2018 is fairly stated.

3. Summary Statement of Appropriation and Budget Information

The summary statement of appropriation shows that the NGCDF Shinyalu had initially budgeted to spend Kshs.86,810,344 during the period under review which was adjusted to Kshs.144,211,453. This budget is however understated by Kshs.600,000 as the final adjusted budget should have been Kshs.144,811,453 comprising the following breakdown;

	Item	Amount Kshs.
1.	Undisbursed amount for 2016/2017	40,948,275
2.	Cash balance for 2016/2017	5,673,523
3.	Allocation for 2017/2018	98,189,655
	Total	144,811,453

Further, no disclosure has been made in the financial statements of pending receivables and payables for approved projects for which the funds were budgeted.

Consequently, the accuracy of the summary statement of appropriation: recurrent and development combined for the year ended 30 June 2018 could not be confirmed.

4. Presentation and Disclosure of the Financial Statements

The financial statements submitted include items that have been presented with blank figures and notes and are therefore not relevant to the users of the financial statements. In

addition, the total of net cash flows from operating activities is shown as Kshs.33,305,528 instead of Kshs.33,527,668 resulting in an unexplained variance of Kshs.222,140 reported under note 14 as prior year adjustment. Further, note 8 to the financial statements on acquisition of assets for the year 2016/2017 reflects Kshs.1,996,940 for purchase of bicycles, while the previous year's audited financial statements the amount was classified under purchase of motor vehicles.

Also, the financial statements do not include disclosures for pending accounts payables and unutilized funds together with the corresponding projects to which the funds were budgeted for, although the summary statement of appropriation: recurrent and development combined shows unspent balance of Kshs.93,652,464 and the statement of assets and liabilities shows cash and cash equivalents balance of Kshs.39,090,121 as at 30 June 2018.

Consequently, the accuracy and completeness of the financial statements 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 - Shinyalu 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

1. Budgetary Control and Performance

1.1 Budget Performance

During the year under review, Fund had an approved budget of Kshs.144,211,453 against actual expenditure of Kshs.50,558,989 representing 35% of the approved budget resulting in under-expenditure of Kshs.93,652,464 or 65% of the final budget as shown below:

Item	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under Absorption (Kshs)	Under Absorption %
Compensation of Employees	1,903,349	1,095,898	807,451	42
Use of goods and services	11,470,034	9,559,053	1,910,981	17
Transfers to Other Government Units	61,093,803	17,900,000	43,193,803	71
Other grants and transfers	58,253,886	21,892,968	36,360,918	62

Acquisition of Assets	111,070	111,070	0	-
Allocation awaiting approval	11,379,311	0	11,379,311	100
Total	144,211,453	50,558,989	93,652,464	65

However, the management did not provide any reason for non-utilization of funds that were meant for development projects. Non-utilization of funds is an indication that services and approved programs were not delivered and therefore the budget did not meet all the intended objectives of improving service delivery to the residents of Shinyalu Constituency.

1.2 Project Implementation Status

The management of Fund did not provide an updated and current Project Implementation Status (PIS) report as at 30 June 2018 for audit review in support of the budgeted projects which had total disbursements of Kshs.39,904,038. The Project Implementation Status (PIS) report provided for audit review was as at 30 June 2016.

Consequently, the constituents may not have obtained value from the amounts disbursed towards the implementation of the planned projects for the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the 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 money has not been applied lawfully and in an effective way.

Basis for Conclusion

1. Handing Over Exercise

During the year under review, a new constituency development fund committee was constituted. However, the management did not provide documentary evidence in form of handover report as required by Section 24 (1) of the National Government Constituencies Development Fund Regulations. It was also noted that the outgoing fund manager did not hand over to the incoming fund manager. The process of transition was therefore not seamless and which may have affected the operations of the Fund.

2. Fixed Assets Register - Missing Office Laptop

The summary of fixed asset register at annexure 3 to the financial statements reflects assets valued at Kshs.12,192,390 as at 30 June 2018 and which included two office laptops, HPI5 500GB purchased at a cost of Kshs.111,070 on 30 August 2017. However, the two laptops were not in the custody of the Fund Account Manager as at the time of audit in March 2019 and no explanation was provided as to their where about.

Consequently, the value of the two laptops amounting to Kshs.111,070 could not be ascertained as at 30 June 2018.

3. Transfers to Other Government Units

3.1 Failure to Spend Funds Disbursed to PMCs – Kshs.4,500,000

Included under transfers to other government units amount of Kshs.19,900,000 is Kshs.4,500,000 disbursed to two (2) primary schools and one secondary school towards implementation of projects. However, as at the time of the audit in March 2019, the projects had not been implemented by the schools as shown below:

Date	PV. No.	Chq No.	Payee	Amount (Kshs)	Remarks
10/05/2018	67	008441	Ingolomosio Primary School	3,000,000	The funds were released to enable the school construct 4 classrooms at Kshs.2,000,000 and put an administration block at Kshs.1,000,000. The funds have since remained in the school account at Cooperative Bank, Kakamega as the school awaits identification of contractor by the CDFC. The school had no bills of quantities for the projects.
10/05/2018	67	008385	Lugala Secondary School	500,000	The funds were disbursed to the school to plaster, floor, fit windows/doors and ceiling for the school library. When disbursement of funds delayed, the school utilised funds from another source to complete the works hence the funds are intact in the bank. The principal said he is waiting for the new board to be inaugurated to seek its authority to utilize the CDF funds to purchase land for school expansion.
10/05/2018	67	8376	Shitsava Primary School	1,000,000	The funds were disbursed to purchase 1.5 acres of land for school expansion. A site visit to the school revealed that the funds were diverted and utilised on construction of two classrooms after the CDFC delayed disbursing funds and the targeted land had been sold to someone else.
Total				4,500,000	

Consequent, the residents of Shinyalu Constituency may not have obtained value for Kshs.4,500,000 disbursed towards the four projects during the year ended 30 June 2018.

3.2 Poorly Implemented and Incomplete Projects

Included in transfers to other government units amount of Kshs.17,900,000 are disbursements amounting to Kshs.6,500,000 to five (5) education projects. However, audit verification of these projects in March 2019 revealed that the implementation was not done properly as shown below:

Date	PV. No.	Chq No.	Payee	Amount (Kshs)	Remarks
30/06/2018	84	008443	Maluna Primary School	1,500,000	The funds were disbursed for the construction five (5) classrooms which were not completed. They were in use although they were incomplete; without windows, floor, plastering, painting etc. It was noted that this is the second project for 5 classes with the phase 1 still standing 3 incomplete classes. A third incomplete project involves the Administration block that was at lintel level.
30/06/2018	84	008440	Mukhuru Primary School	1,500,000	The funds were disbursed for the completion of five (5) classrooms. The works were done and the classes were habitable save for minor works involving window panes and painting. It was however noted that the school charged between Kshs.2,000 and Kshs.4,000 for the tenders to undertake the works thereby raising Kshs.18,000 which was shared by the PMC members as facilitation allowances in addition to the project 5%.
30/06/2018	84	008444	Luvini Primary School	1,500,000	The funds were disbursed for the completion of four (4) classrooms. The pupils were using them incomplete without windows, floor, plastering, painting etc. It was noted that the school had a second incomplete project involving construction of the administration block that was stalled at lintel level.
30/06/2018	84	008377	Friends Bulovi Secondary School	1,000,000	The funds were disbursed to the school for acquisition of two (2) acres of land for expansion. However, the amount was diverted to construction of a classroom at Kshs.600,000 on a different piece of land acquired at Kshs.400,000 (1 acre). No CDFC approval was given and the school has no title deed to the piece of land.
10/05/2018	67	008377	Wanzalala Primary School	1,000,000	The funds were disbursed for the construction two (2) classrooms. A visit to the school revealed that the classrooms have been partially completed and left without window panes. Further, only one class has been floored but has already developed cracks before being put into use.
				6,500,000	

Consequently, failure to implement these projects may have denied the constituents of Shinyalu the much needed services as well as not obtaining value for money in respect of Kshs.6,500,000 incurred on the projects.

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 Internal Controls, Effectiveness, Governance and Risk Management Systems 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

Procurement of School Bus under Emergency Funds

The statement of receipts and payments reflect under other grants and transfers an expenditure of Kshs.1,884,064 which was released as an emergency support to Mukhonje Secondary School to assist the school offset an outstanding loan. The loan had been borrowed from Kenya Commercial Bank Limited to purchase the school bus KBR 867U, an Isuzu 55 seater.

Information available indicated that the school board secured the funds in 2012 and agreed with the bank that quarterly payments were to be made upon collecting the funds from parents on payment of a mandatory levy of Kshs.3,000. The school had also undertaken a funds drive in 2013 to raise additional funds. The school however defaulted in its obligation to service the loan and therefore made an appeal for support which was approved by the Fund. However, the management did not provide any evidence to qualify the disbursement of funds under emergency support.

Consequently, the funding did not qualify under emergency funding as required by Section 8 of the National Government Constituencies Development Fund Act, 2015.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires 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 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