

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – BANISA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Banisa Constituency set out on pages 6 to 31, which comprise the statement of financial assets as at 30 June 2017, 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 National Government Constituencies Development Fund - Banisa Constituency as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, 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 Qualified Opinion

1. Cash and Cash Equivalent

The statement of assets in the financial statement for the year ended 30 June, 2017 reflects a bank balance of Kshs.31,922,167.43 as at 30 June, 2017. The balance was supported by certificate of bank balances, cash book, bank statement and bank reconciliation statement. However, a review of the bank reconciliation statement for the month of June 2017 revealed stale cheques amounting to Kshs.564,500 reflects as payments in cash book not yet recorded in the bank statement (Unrepresented Cheques). Some of the cheques which were paid to various learning institutions being payment of bursaries to needy students and Kenya Revenue Authority continued to reflect as unrepresented cheques. No explanation was given as to why the cash book was not updated.

In the Circumstances, the accuracy, completeness and validity of the bank balance reported in the statement of Assets could not be ascertained.

2. Award of Contracts for Primary School Projects

During the financial year 2016/2017 the National Government Constituencies Development Fund-Banisa Constituency disbursed an amount of Kshs.12,500,000 to various PMCs as grants for primary school projects. Examination of payment vouchers and other records relating to procurement of projects revealed the following anomalies;

- (i) No contract agreement created as form of agreement was not executed by both parties in the contract against section 235 (2) of the Public Procurement and Asset Disposal Act, 2015 which requires accounting officers to enter into a written contract with the persons submitting the successful tenders.
- (ii) There was no evidence availed to show that certificate of practical completion was not availed for audit review.
- (iii) No evidence to show that money for defects was retained.
- (iv) Bill of quantities were not signed by the tender committee on one or more pages as required by the public procurement and disposal Act, 2015.
- (v) Underground tank project at Abu Hureira and Construction of administration block at Chief Haji Mohamed Primary School were not labeled as at time of audit verification. It was therefore not possible to confirm whether the projects relate to the financial year under review or implemented by another entity.
- (vi) The CDF procured and supplied office furniture to six primary schools within the Constituency at a cost of Kshs.3,000,000. The items were procured through Quotations. The Quotations were however opened by only one person, the secretary to the Project Management Committee an indication that there was no competitive procurement procedures. A visit to some of the schools revealed the furniture was supplied and in use. However, there were no signed distribution lists or delivery notes showing the recipient of the furniture. It was also noted that the furniture was not labeled to show the name of the CDF and the Financial Year the items were procured. It was therefore not possible to confirm whether the project related to the Financial Year or the items were supplied by other entities.

In view of the above anomalies it has not been possible to confirm the propriety of the expenditure.

3. Award of Contracts for Secondary School Projects

During the financial year 2016/2017 the National Government Constituency Development Fund Banisa disbursed an amount of Kshs.9,300,000 to various Project Management Committees(PMCs) as grants for the construction of class rooms and administration blocks in various secondary schools within the projects. However,

examination of payment vouchers, project files and other records revealed that the payments documents such as evaluation reports for the projects, certificate of practical completions, inspection and acceptance committee reports and contract agreement signed between the PMC and the contractors. Further, there was no tender opening register maintained by the Project management committees to show that they actually sat and deliberated on the said procurements. Tender notices did not set the criteria to be used in the evaluation of the tenders hence audit could not establish how the contractors were selected. It was further observed that the original Bills of Quantities for some of the projects were not made available for audit review and Confidential Business Questionnaires were not properly filled as required by the procurement Laws.

In the circumstances, the propriety of the expenditure could not be ascertained.

4. Unaccounted for Bursary Expenses

In the financial year 2016/2017, the NG CDF Committee for Banisa Constituency disbursed bursaries amounting to Kshs.14,485,440 to various Tertiary institutions and secondary schools for the benefit of needy students. However, examination of payment vouchers and its supporting documents revealed that an amount of Kshs.2,885,440 disbursed to various institutions has not been acknowledged through official receipts or acknowledgement letters by the beneficiary institutions. Further, cheque dispatch register was not opened to record the cheques that were issued out, the level of studies for the beneficiaries not indicated in the supporting payment schedules and minutes of the vetting committee were neither attached to the payment vouchers nor availed for audit review hence not possible to ascertain the criteria used in vetting the beneficiaries.

Consequently, the propriety of the expenditure could not be ascertained.

5. Unaccounted for Monitoring and Evaluation

During the year under review, the National Government Constituencies Development Fund - Banisa spent an amount of Kshs1,500,000 for car hire services during monitoring and evaluation exercise. The payment was however not supported with lists of projects visited for monitoring and evaluation and the Progress reports on the status of the projects visited. Further, temporary work tickets, contract agreements, copies of the log books, insurance covers and drivers driving licenses for the vehicles purported to have been hired for the exercise were not made available for audit review.

In view the propriety of the expenditure could not be ascertained.

6. Non-Maintenance of Financial and Accounting Records for the Project Management Committee

It is a requirement as per section 15(10)(a) and 10(b) of National Government Constituency Development Fund Regulations, 2016 to maintain records of Bank accounts opened by project management committees and to prepare and table quarterly

report. Contrary to the above regulations, it was noted that records of bank accounts held by the various project management committees such as bank statements and cashbooks were not maintained by the Management. There was no bank reconciliation statement for the Project Management Committee accounts.

Under the circumstances, it was not possible to ascertain whether the funds disbursed to the Project Management Committee accounts were properly managed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Banisa 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 and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Budget Control and Performance

1.1 Budget Performance Analysis

Review of statement of budget appropriation revealed that during the year under review, the National Government Constituency Development Fund - Banisa had an approved budget amounting to Kshs.155,128,695.09. Out of the Kshs.155,128,695.09 budgeted for the financial year under review, an amount of Kshs.72,732,143.37 was unspent balance from the financial year 2015/2016. Budget utilization on receipts and expenditure are as follows:

Item	Budget (Kshs)	Actual (Kshs)	Difference Under (Kshs)	%
Receipts	161,751,765	161,051,765	700,000	99.5%
Expenditure	161,751,765	129,129,599	32,622,166	80%

The above analysis reflects actual receipts of Kshs.161,051,765 against budgeted amount of Kshs.161,751,765 resulting to underfunding of Kshs.700,000 or 5% of funds budgeted for the year. Further, the National Government Constituency Development Fund - Banisa spent an amount of Kshs.129,129,599 against a budgeted amount of Kshs.161,751,765 resulting to under expenditure of Kshs.32,622,166 or 20% of the approved budget as detailed below:

Item	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under Expenditure (Kshs)	% Difference
Compensation of employees	3,834,760	1,738,040	2,096,720	45%
Use of goods and services	19,993,930	12,164,855	7,829,075	61%
Transfer to other Government units	100,141,143	86,336,034	13,805,108	86%
Other grants and transfers	37,781,933	28,890,670	8,891,263	76%
TOTAL	161,751,765	129,129,599	32,622,166	

No explanation was given why the funds were not fully utilized as budgeted for. The underutilization of the funds may deny the constituents the services they require.

2. Appointment of the Constituency Oversight Committee

During the year under review, it was observed that constituency oversight committee was not appointed as required by section 53(1) of the National Government Constituency Development Fund Act, 2015. No proper explanation was given for not appointing the committee.

Consequently, it was not clear how the funds operated without oversight committee.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting.

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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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's 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 Fund's 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

22 August 2018