

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BONDO 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 - Bondo Constituency set out on pages 5 to 25, which comprise the statement of financial assets as at 30 June 2017, statement of receipts and payments, statement of cash flows and summary statement of appropriation 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, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, the financial position of National Government Constituencies Development Fund - Bondo 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 Reporting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

Further, as required by Article 229 (6) of the Constitution, based on the procedures performed, except for the matters raised in the Other Matter section of my report, I confirm that nothing 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. Unconfirmed Cash and Cash Equivalents Balance

The statement of financial assets includes a cash and cash equivalents balance of Kshs.1,295,514. However, the bank reconciliation statement as at 30 June 2018 includes unrepresented cheques balance of Kshs.3,797,508 which in turn includes stale cheques amounting to Kshs.215,303 not reversed in the cash book. In addition, the bank balance and cash survey certificates as at 30 June 2017 were not presented for audit verification while the financial statements disclosed. Further bank statements for the Project Management Committee (PMC) bank balance of Kshs.2,247 as at 30 June 2017 were not availed for audit verification.

Consequently, the accuracy and completeness of the cash and cash equivalents balance as at 30 June 2018 cannot be confirmed.

2. Unconfirmed National Hospital Insurance Fund Expenditure

Included in other grants and other payments balance of Kshs.50,501, 258 under Note 5 to the financial statements are transfers totaling Kshs.4,000,000 made under the National Hospital Insurance Fund (NHIF) project for needy and deserving constituents. However, the criterion used to identify the 600 beneficiaries was not presented for audit.

In the circumstance, it is not possible to confirm that expenditure totaling Kshs.4,000,000 transferred to the National Hospital Insurance Fund was utilized on offsetting medical costs for needy and deserving constituents.

3. Unconfirmed Project Grants

The statement of receipts and payments reflects transfers to other government entities totaling Kshs.26,738,650 which in turn include Kshs.12,824,229 transferred to five (5) secondary schools during the year under review. However, the following anomalies were noted in relation to the transfers:

- i. Bank statements from secondary schools that benefited from transfers worth Kshs.8,265,000 were not made available for audit examination to confirm that the monies were received by the respective schools.
- ii. Management did not make Project returns available for audit examination to confirm how the transfers were spent.
- iii. Management did not present evidence to confirm that the projects were implemented in consultation with the line Ministries.
- iv. No evidence was availed to confirm that the projects were supervised at each stage of implementation.
- v. Physical verification of St Mary's Maranyona Secondary school on 22 May 2018 revealed that a transfer of Kshs.1,140,000 to the school meant for construction of a twin teacher's house was re-allocated to fund construction of an administration block without authority from the Board.

Construction of the administration block reached lintel level after which the contractor abandoned the construction site. In the circumstances, it was not possible to confirm that the transfers totaling Kshs.9,405,000 were received by the secondary schools and whether they were utilized for the intended purposes.

4. Unconfirmed Water Project Expenditure at Bondo Teachers Training College

The statement of receipts and payments reflects transfers to other Government entities totaling Kshs.26,738,650 out of which Bondo Teachers Training College was budgeted to receive Kshs.3,800,000 for water projects approved by the Constituencies Development Fund Board. However, a total of Kshs.3,610,000 was transferred to the College for connection of water pipes and excavation of a water tank.

Physical verification of the project and examination of the payment vouchers revealed the following anomalies:

- i. A project management committee to oversee implementation of the project was not put in place as required by the NGCDF Act,2015.
- ii. The respective Bank statements were not made available for our audit examination to confirm that the transfer of Kshs.3,610,000 was received by the institution.
- iii. Architectural drawings, designs, work plans and bills of quantities for the project were not made available for audit examination.
- iv. There were no project files at both the Fund’s office and the Institution.
- v. No evidence was availed to confirm that the project was supervised by the line Ministry as required under the NGCDF Act.

In the circumstances, it is not possible to confirm that the grant totaling Kshs.3,610,000 was disbursed to the College and spent on the water project in whole.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am an independent of National Government Constituencies Development Fund – Bondo 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 key audit matters to communicate in my report.

Other Matter

1. Budget Implementation –Under-expenditure

During the financial year under review, the Fund budgeted Kshs.1,870,689, Kshs.700,000, Kshs.1,137,931 and Kshs.11,600,000 for security projects, constituency sports tournament, use of Goods and services and CDFC/PMC capacity building, respectively. However, examination the financial statements revealed that the Fund overspent on sports projects and use of goods and services as detailed below:

Item	Expenditure as per the Financial statements	Approved Budget	Variance	Percentage Utilization (%)

	Kshs.	Kshs.	Kshs.	
Sports Projects	1,637,931	1,137,931	500,000	70%
Use of Goods and Services	6,475,555	5,311,693	1,163,862	82%
CDFC/PMC Capacity Building	980,000.00	700,000	280,000	71%

Underutilization of these vote heads denied the residents of Bondo Constituency access to services budgeted and funded for their use.

2. Unauthorized Reallocation of Bursary Funds

Included in the other grants and other payments component balance of Kshs.50,501,258 reflected in the Statement of receipts and payments are bursaries to secondary schools totaling Kshs.20,000,000 which include Kshs.4,925,000 bursaries re-allocated by the Project Management Committee to three (3) secondary schools namely Got Matar, Orengo and St. Paul's Mitiro for the construction of an administration block in Got Mater Secondary school and a classroom in Orengo Secondary School respectively and additional Kshs.1,491,000 for the renovation of classrooms. However, the re-allocations were made without the approval of the Board as required under the NGCDF Act, 2015.

The management of the Constituency thus breach the law on re-allocation of public expenditure.

3. Patrol Boats Project

Also included in other grants and other payments expenditure of Kshs.50,501,258 reflected in the statement of receipts and payments is the sum of Kshs.11,600,000 being transfers to security projects which in turn include Kshs.1,045,000 transferred to Bondo Constituency Patrol Boats Project. However, the following anomalies were noted in relation to the project:

- i. No quotations were availed for audit examination to confirm how the project's suppliers were sourced.
- ii. The local purchase order (LPO) or local service order (LSO) issued by the project management committee and invoice and delivery note received from the supplier were not availed for audit review.
- iii. Bank statements were not availed for audit review.
- iv. Physical verification carried out on 17 May 2018 on the boat purchased for Uwaria Beach Community revealed that although Kshs.150,000 was reported to have been spent on branding the boat during the year under review, the branding was not evident. Therefore, propriety of the Kshs.150,000 expenditure was doubtful.

- v. Physical verification conducted on 22 May 2018 of a Yamaha boat engine supplied to Liunda Beach for Kshs.400,000 revealed that the engine serial No.6B4K-L-1233821 reflected in the log book differed with the one (No.6B3 - 1018201) verified physically, which cast doubt on the expenditure.
- vi. The log book of the boat at Honge Beach purchased at Kshs.400,000 had the same serial number as that supplied to Liunda Beach which suggested that fraud was committed in the transaction.

Consequently, the regularity of the expenditure of Kshs.950,000 incurred on purchase and branding of community patrol boats cannot be confirmed.

4. Security Projects

Further included in other grants and other payments balance of Kshs.50,501,258 is Kshs.11,600,000 incurred on security projects which in turn includes Kshs.8,550,000 transferred to Bondo Constituency High Mast Security Flood Lights Project.

The security flood lights were to be installed in Usenge, Ndira, Nyamonye, Wichlum and Nango centers at a cost of Kshs.1,800,000 each. However, the following anomalies were noted in relation to the Projects:

- i. The list of prequalified suppliers was not made available for audit examination.
- ii. The project's acceptance letter was an un-dated and unreferenced, suggesting that the contractor did not sign the letter to acknowledge award of the contract and commit to execute the works worth Kshs.1,710,000. Therefore no binding contract was established.
- iii. The minutes of the tender evaluation meeting were not availed for audit examination.
- iv. The criterion used to evaluate the bidders was not availed for audit examination.
- v. No service order was availed for audit examination
- vi. Value Added Tax (VAT) totaling Kshs.272,000 was not deducted from the payment of Kshs.1,700,000.

In view of these anomalies, the regularity of expenditure totaling Kshs.8,550,000 cannot be confirmed.

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 as a sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management is aware of the intention to liquidate the Fund or have its operations cease.

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 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 of the entity or business activities 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 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

02 October 2018