

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BUURI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund– Buuri Constituency set out on pages 5 to 22, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation : recurrent and development 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 – Buuri 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**

#### **1.0 Presentation of the Financial Statements**

The International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board requires that related party disclosures and list of projects implemented by the entity be included in the financial statements. However, a review of the financial statements revealed that the related party disclosures and the list of projects were not included in the financial statements for the year under review.

In view of the foregoing, the presentation of the financial statements for the year under review did not conform to the International Public Sector Accounting Standards (Cash Basis) as prescribed by the reporting template.

#### **2.0 Irregular Procurement of Office and General Supplies**

During the financial year under review, the Fund paid Kshs.84,760 to Julies Bureau services vide payment voucher No. 205 dated 31 March, 2017 for the supply of stationery. However, the supplier was directly sourced contrary to Section 91 of the

Public Procurement and Asset Disposal (PPAD) Act, 2015. The management failed to float quotations hence denying the Fund an opportunity of fair, equitable, transparent, competitive and cost effective acquisition of goods as required by Section 227 of the Constitution.

In the circumstances, the Fund was in breach of the Constitution.

### **3.0 Transfers to Primary Schools**

Note 6 to the financial statements reflects transfers to primary schools of Kshs.35,910,000 which included Kshs.2,000,000 paid to Kanthungu Primary School for construction of piped water and installation of a 10,000 litre water tank. However, although, the piping was completed, physical verification carried out on 16 May, 2018 revealed that the school had not received water since the construction of the water pipe. No explanation was provided as to why the Fund implemented a project that was not offering benefits to the community. Further, feasibility report showing the route the pipe ought to have followed to enable flow of water to the school was not provided for audit review.

In the circumstances, it was not possible to ascertain that the Fund got value for money for Kshs.2,000,000 expenditure as at 30 June 2017.

### **4.0 Transfer to Secondary Schools**

Note 6 to the financial statements reflects transfer to secondary schools of Kshs.10,300,000 which included Kshs.1,000,000 paid to Subuiga secondary school project management committee (PMC) for the construction of one classroom. However, project files containing project management committee minutes, bank statements, tenders/quotations, bill of quantities and completion certificates were not provided for audit review. Further, a physical verification carried out on 16 May 2018 revealed that the project had not been done. No explanations were provided for failure to complete the project.

In addition, included in the Kshs.10,300,000 was Kshs.200,000 paid out to Ontulili secondary school for roofing plastering, floor and paintwork at the school. The school paid Kshs.107,000 from the Kshs.200,000 to Buuri Youngster Youth Group on 8 August 2016 vide invoice No. 15 for the supply and delivery of 1100 pieces of machine cut stones and 400 pieces of quarry stones. However, the respective quotations, evaluation committee minutes, inspection and acceptance committee minutes were not provided for audit review. Further, the planned works did not factor the use of building stones and no explanation was provided why the stones were purchased.

In the circumstances, the regularity and value for money of the Kshs.1,000,000 and Kshs.107,000 paid to Subuiga and Ontulili Secondary Schools respectively all totaling to Kshs.1,107,000 could not be ascertained.

### **5.0 Emergency Fund**

Note 7 to the financial statements reflected an expenditure of Kshs.2,985,253 expenditure on emergency. However, applications showing the nature of emergency and evaluation to determine whether they met the threshold for an emergency as set

out in Section 8(3) of the National Government Constituencies Development Fund Act, 2015 was not provided for audit review.

In the circumstances, it was not possible to ascertain that Kshs.2,985,253 expenditure as at 30 June 2017 qualified as an emergency in line with the NG-CDF Act, 2015.

## 6.0 Transfers to Tertiary Institutions

Note 7 to the financial statements reflect a transfer to tertiary institutions of Kshs.16,150,000. The transfer was to be used for construction of proposed Timau College to its completion and the disbursements to the college were as follows:

Date	Supplier/Payee	Voucher No	Amount (Kshs)	Cheque No
2/3/2017	Timau College	176	6,800,000	3828
17/11/2016	Timau College	92	5,000,000	3409
29/9/2016	Timau College	53	4,350,000	3144
	<b>Total</b>		<b>16,150,000</b>	

The contract for the construction of the college was awarded to Nkingo Contractors Company Ltd. However, contract documents showing how the tender was awarded were not provided for audit review. Further, during physical verification of the project, it was observed that walls in four (4) rooms had cracked in the middle.

In the circumstance, the regularity of Kshs.16,150,000 expenditure could not be confirmed.

## 7.0 Delay in Projects Implementation

During the financial year under review, the Fund paid Kshs.13,000,000 in respect to four (4) projects as follows:

Name of school	Date	Amount Deposited by the Fund (Kshs)	Balance at the Bank (Kshs)
Muuti –o-Nthunguri primary school	11/01/2017	3,500,000	3,309,835
Kamuketha primary school	09/03/2017	3,500,000	3,500,000
Munanda primary school	11/01/2017	3,500,000	3,500,000
Buuri Secondary School	10/03/2017	2,500,000	2,500,000
	<b>Total</b>	<b>13,000,000</b>	<b>12,809,835</b>

However, a physical verification done on 17 May 2018 revealed that the projects had not started and no explanation was provided as to why the projects had not been implemented even as the funds remained unutilized in the bank.

In the circumstances, the Fund did not get value for money for Kshs.13,000,000 disbursement as at 30 June 2017.

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

Development Fund- Buuri 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. Budgetary Control and Performance**

During the financial year under review, Buuri NG- CDF approved an expenditure budget of Ksh.81,896,550 with a further adjustment of Kshs.62,439,483 thus raising the final total budget to Kshs.144,336,033. However, only Kshs.125,995,230 (88%) was spent resulting in an under expenditure of Kshs.18,340,803 (13%)

In the circumstances, the residents of Buuri Constituency did not receive services equivalent to the Kshs.18,340,803 under expenditure as at 30 June 2017.

### **2. Project Implementation Status**

The financial statements for the year under review reflected transfers to other government entities and other grants/other payment of Kshs.66,360,000 and Kshs.45,908,574 respectively both totaling Kshs.112,268,574 as at 30 June 2017 being transfers to National Government Institutions to implement various projects.

However, the project implementation status report in respect to the Kshs.112,268,574 projects could not be analyzed since vital details such as name of project, location of projects, fund allocated, funds disbursed and date of completion were not provided.

In the circumstance, it has not been possible to ascertain the project implementation status of projects worth Kshs.112,268,574 as at 30 June 2017.

## **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 Funds ability to continue as a going concern 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.

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 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 July 2018**