

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund-Central Imenti Constituency set out on pages 6 to 32, which comprise the statement of assets and liabilities 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund-Central Imenti 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 do not comply with the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1.0 Accuracy and Completeness of the Financial Statements

1.1 Variances Between the Ledger and the Financial Statements

The financial statements for the year under review reflect a balance of Kshs.104,978,090 on four (4) expenditure items while the respective schedules reflect a balance of Kshs.107,469,089 resulting in unexplained and unreconciled variance of Kshs.2,490,999 as follows;

Item	Financial statements (Kshs)	Supporting Schedule (Kshs)	Variance (Kshs)
Compensation of employees	3,783,487	3,892,335	(108,848)
Use of goods and services	9,758,839	12,025,839	(2,267,000)

Transfer to other government units	47,903,257	43,532,507	4,370,750
Other grants and transfers	43,532,507	48,018,408	(4,485,901)
Total	104,978,090	107,469,089	2,490,999

The financial statements were therefore understated by Kshs.2,490,999.

In the circumstances, the accuracy and completeness of the financial statements for the year under review could not be ascertained.

1.2 Presentation and Disclosure of the Financial Statements

The table of content at page one (1) of the financial statements for the year under review indicates that the financial statements were forwarded by the Cabinet Secretary instead of the Chairman National Government Constituencies Development Fund Committee as required by the International Public Sector Accounting Standards (Cash Basis) while the key constituency information and management and the table of contents both bear same page number (page number 1). Further, page 2 is blank while pages 10 to 23 are missing, what should have been page 36 is indicated as page 10 and pages 25 to 31 have been repeated.

In addition, paragraph two of the statement of NGCDF Management Responsibilities at page four of the financial statements for the year under review indicated that the information contained therein was for the financial year ended 30 June 2016. However, the information required for this audit should have been for the financial year ended 30 June 2017. It was also noted that annexes 1 to 4 do not indicate the name of the entity.

In the circumstances, the presentation and of the financial statements as at 30 June 2017 could not be confirmed.

2.0 Voidable Bursaries

2.1 Award of Bursaries to Tertiary Institutions

During the financial year under review, the Fund awarded bursaries totaling Kshs.14,772,500 to students in tertiary institutions. However, perusal of records provided for audit revealed that only bursaries totaling Kshs.11,842,507 were acknowledged as having been received by the recipient institutions while the balance of Kshs.2,929,993 was not acknowledged by the respective Institutions. Further, there were no set criteria in award of the bursaries.

In the circumstances, the regularity of the Kshs.2,929,993 expenditure could not be confirmed.

2.2 Award of Bursaries to Secondary Schools

During the year under review, the Fund disbursed a total of Kshs.14,075,300 as bursaries to secondary schools vide commitment letters from the school principals who would give a list of needy cases in their schools to the National Government

Constituencies Development Fund-Central Imenti office for award without filling application forms. However, this was contrary to the requirements of Constituency Development Fund Circular Vol 1/111 of 13 September 2010 which requires that beneficiaries must make formal application for the bursary and applications must be vetted before awards. In addition, examination of disbursement records to the various schools revealed unexplained and unreconciled variance of Kshs.3,770,200 between the Kshs.4,738,000 reflected as having been disbursed by the Fund and the Kshs.967,800 which was appearing in the school records as follows;

No.	Name of the School	CDF Records (Kshs.)	School Records (Kshs.)	Variance (Kshs.)
1.	Kirigara Girls Secondary	3,235,000	854,000	2,381,000
2.	Karaene Day Secondary	885,000	43,000	842,000
3	Nkando Secondary	618,000	70,800	537,200
	TOTAL	4,738,000	967,800	3,770,200

In the circumstances, the regularity and accuracy of the expenditure of Kshs.14,075,300 could not be confirmed.

3.0 Committee Expenses

The financial statements for the year under review, reflect committee expenses balance of Kshs.4,518,600 while the supporting schedules reflect a balance of Kshs.6,785,600 leading to an unexplained and unreconciled variance of Kshs.2,267,000. Further, a review of the supporting ledgers revealed that included in the Kshs.6,785,600 was an expenditure of Kshs.5,702,000 which was not supported by committee minutes. In addition, the Fund held 32 meetings during the year under review exceeding the statutory limit of 24 meetings by 8 meetings.

In the circumstances, the accuracy and propriety of the expenditure of Kshs.4,518,600 shown in the financial statements could not be confirmed.

4.0 Irregular and Invalid Compensation of Employees

4.1 Payment of Gratuity

Included in the compensation of employees' balance of Kshs.3,783,487 was Kshs.1,767,706 for payment of gratuity to 8 employees of the Fund. A review of the payments revealed that the employees were on a three-year contract from 1 January 2014 to 31 December 2016; a period in which the Fund was legislated by the Constituency Development Fund Act, 2013 which stipulated that a Constituency Development Fund office could employ at maximum, 5 staff members. Further, the Fund did not maintain personnel records including contract documents for two of the 8 employees while the gratuity paid to the 8 employees was not taxed at source.

In the circumstances, the propriety and validity of the gratuity expenditure of Kshs.1,767,706 remains doubtful.

4.2 Irregular Recruitment

During the financial year under review, the Fund recruited an assistant grader whose terms of engagement including the contract, remuneration, personal file and other engagement documents were not provided for audit review. A total of Kshs.165,000 was paid to the staff as allowances for grader operations in the year under review in addition to his monthly salary of Kshs.13,738. Further, the nature of works the grader was doing were not disclosed while the related work tickets were not provided for audit scrutiny. A further analysis of the financial ledger revealed that another employee by the name David Rutere was paid a total of Kshs.91,000 through various cheques but he was not appearing in the payroll.

In the circumstances, the regularity and validity of the payments of Kshs.256,000 could not be confirmed.

5.0 Unsupported Purchase of Sports Equipment and Apparel

The financial statements for the year under review reflect an expenditure of Kshs.1,627,000 for sports activities while the respective supporting schedules indicate an expenditure of Kshs.1,645,000 leading to an unexplained and unreconciled variance of Kshs.18,000. A review of the supporting documents however revealed that there was no project management committee in place to run the activities but instead the payments were being made to the Fund Account Manager while the NG-CDFC acted as the Project Management Committee (PMC). Further, included in the Kshs.1,645,000, was Kshs.600,000 in respect to administration translating to 36% of the allocation in violation of the National Government Constituencies Development Fund Act, 2015 which set the limit at 5%. In addition, the procurement documents were not supported by tender opening, evaluation and award minutes including invoices, delivery notes, acknowledgements and distribution list.

In the circumstances, the accuracy and regularity of the Kshs.1,627,000 expenditure could not be confirmed.

6.0 Mocks and Continuous Assessment Tests

The financial statements reflect an expenditure of Kshs.1,641,702 in respect to Mocks and Continuous Assessment Tests for the year under review. However, the respective supporting schedules reflect an expenditure of Kshs.1,738,853 resulting in unexplained and unreconciled variance of Kshs.91,151. Further, the expenditure was not budgeted for and there was no Project Management Committee in place. In addition, the payments were not supported by requisition letters and acknowledgement receipts from the recipient schools.

In the circumstances, the accuracy and regularity of expenditure amounting to Kshs.1,641,702 could not be confirmed.

7.0 Management of Environment Projects

During the year under review, the Fund spent Kshs.2,228,000 on three environment projects. However, no supporting schedules were availed for audit review. Further, documents made available in support of the environment projects showed an

expenditure totaling Kshs.1,836,000 leading to an unexplained and unaccounted for variance of Kshs.392,000.

In the circumstances, the accuracy and regularity of the expenditure of Kshs.2,228,000 could not be confirmed.

8.0 Voidable Procurement of a Bus for MCK Chaaria Township Primary School

Included in the transfers to Primary Schools balance of Kshs.13,210,000 is Kshs.1,500,000 paid out to MCK Chaaria Township Primary School for the purchase of a 52 Seater bus. However, available information revealed that no bus has been purchased. Further, no expenditure returns and bank statements were made available for audit review.

Consequently, the regularity and validity of the Kshs.1,500,000 could not be confirmed.

9.0 Unauthorized Re-Allocation of Funds

The financial statements for the year under review reflect a transfer to primary schools balance of Kshs.13,210,000 which includes Kshs.650,000 which was re-allocated from transfer to secondary schools. However, no approval for re-allocation and expenditure returns were availed for audit review.

In the circumstances, the propriety of the Kshs.650,000 expenditure as at 30 June 2017 could not be confirmed.

10.0 Transfer to Primary Schools

The financial statements for the year under review reflect transfers to primary schools balance of Kshs.13,210,000 which includes Kshs.1,110,000 transferred to 6 primary schools whose transfer vouchers, expenditure returns and bank statements were not made available for audit scrutiny. Three of the six primary schools namely; Ngeene, Mwitumura and Njuthere received Kshs.200,000 each while the remaining three schools namely; Murathi, Ucheru and Kianthumbi received Kshs.350,000, Kshs.150,000 and Kshs.10,000 respectively.

In the circumstances, the regularity of the expenditure of Kshs.1,110,000 could not be confirmed.

11.0 Security Projects

Included in the security projects balance of Kshs.9,165,250 is Kshs.1,340,500 transferred to 5 security institutions for the construction of offices as follows;

Date	Project	P.V No.	Amount (Kshs.)
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15.3.2017	Gaitu east chief	3752	200,000
15.3.2017	Gaitu west chief	3753	300,000
5.4.2017	Nkandore alpine	4342	500,000
8.6.2017	Baragu ass chief	4472	225,500
8.6.2017	Baragu ass chief	4473	115,000
	Total		1,340,500

However, no project returns and files were provided for audit review. A physical inspection carried out in early May 2018 for Gaitu West Chief's camp which was awarded Kshs.300,000 revealed existence of an office though poor workmanship was noted as big cracks were visible on the veranda floor. The other part of the building revealed that the works were still ongoing and some rooms were allegedly used as offices. The Nkandore AP line which was awarded Kshs.500,000 in the financial year was still under work in progress and the building was not in use.

In the circumstances, the propriety of the expenditure of Kshs.1,340,500 could not be confirmed.

12.0 Domestic Travel and Accommodation

The financial statements for the year under review reflect a balance of Kshs.2,722,239 in respect to domestic travel and accommodation which include Kshs.1,161,130 spent on procurement of fuel, spare parts, food and postal charges at a cost of Kshs.670,000, Kshs.203,200, Kshs.220,500 and Kshs.67,330 respectively. However, the Kshs.670,000 and Kshs.203,200 expenditures on fuel and spare parts both totalling Kshs.873,200 were not supported by the fuel and spare parts registers.

In the circumstances, the regularity of the expenditure of Kshs.873,000 could not be confirmed.

13.0 Unsupported Expenditure on Use of Goods and Services

13.1 Unsupported Payments to Staff and Suppliers

The financial statements for the year under review reflect use of goods and services figure of Kshs.9,758,839. However, the figure did not include Kshs.1,790,673 paid out to two officers and two other firms as per the records reflected in the ledger as follows;

Date	Payee	Cheque No	Amount (Kshs.)	Vote head
	Kenneth Njagi	3038	448,000	Admin Goods and Services
	Kenneth Njagi	3135	232,000	Goods and Services

2.12.2016	B. Kagwiria	3214	265,000	Goods and Services
	Meru Highway Motors	3242	64,673	Admin goods and services
3.01.2017	Silverspread	3357	300,000	goods and services
03.02.2017	Beatrice kagwiria	3563	180,000	Admin goods and services
09.02.2017	Beatrice kagwiria	3651	36,000	Admin goods and services
2.03.2017	kenneth njagi	3697	115,000	Admin goods and services
02.05.2017	Kenneth njagi	4382	150,000	Adm goods and services
Total			1,790,673	

Further, no supporting documents in relation to the payments were availed for audit review.

In the circumstances, the accuracy and regularity of the Kshs.9,758,839 could not be confirmed.

13.2 Un-Supported Expenditure on Training

During the year under review, the Fund spent Kshs.1,923,000 on training. However, no supporting documents including payment documents were availed for audit review.

In the circumstances, the propriety of the expenditure of Kshs.1,923,000 could not 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-Central Imenti 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 adverse 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 discussed in the Basis for Adverse 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

1.0 Budgetary Control and Performance

The combined summary statement of appropriation reflects an approved budget of Kshs.105,063,750 comprising of Kshs.81,899,551 budget for the year and Kshs.23,167,199 cash balance brought forward from 2015/2016. However, out of the Kshs.81,896,551 approved budget for the year, only Kshs.79,346,551 (97%) was released by the NGCDF Board during the year leading to unrealized amount of Kshs.2,550,000 (3%).

Further, out of the Kshs.105,063,750 total budget for the year only Kshs.104,978,090 was spent while Kshs.85,660 remained unutilized as at 30 June, 2017.

2.0 Project Implementation Status

The Fund had budgeted to implement 49 projects during the year under review. However, 14 projects worth Kshs.26,100,000 had not started while 24 projects with a cost of 42,981,034 were ongoing and only 11 projects worth 5,444,828 had been completed as analyzed below;

Project Status	Sector	Amount Allocated (Kshs.)	Amount Disbursed (Kshs.)	No Of Projects
Completed	Education	1,350,000	1,350,000	3
	Emergency	4,094,828	4,094,828	8
	Sub Total	5,444,828	5,444,828	11
Ongoing	Environment	1,637,931	1,637,931	1
	Education	7,331,034	7,331,034	11
	Bursary	28,724,138	28,724,138	1
	Sport	1,637,931	1,637,931	1
	Security	3,650,000	3,650,000	10
	Sub Total	42,981,034	42,981,034	24
Not Started	Security	5,400,000	4,150,000	5
	Education	20,700,000	19,200,000	9
	Sub-Total	26,100,000	23,350,000	14
Grand Total		74,525,862	71,775,862	49

In the circumstances, the constituents did not receive promised and expected services worth Kshs.26,100,000 and Kshs.42,981,034 being the projects not started and those ongoing respectively.

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 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 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.
- 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

02 August 2018