

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Changamwe Constituency set out on pages 5 to 28, which comprise the statement of 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 combined 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 Changamwe Constituency Development Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards 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. Presentation of the Financial Statements

The financial statements for the year ended 30 June 2017 presented for audit verification do not reflect the surplus/deficit on the statement of receipts and payments.

As a result, the financial statements presented do not comply with the presentation guidelines prescribed by the Public Sector Accounting Standards Board.

2. Accuracy of the Financial Statements

The statement of assets as at 30 June 2017 reflects prior year adjustments of Kshs.763,794. According to Note 14 to the financial statements, prior year adjustments balance is indicated as bank accounts. However, the balance was neither supported nor explained. It was not clear and management has not explained why the prior year's financial statements were adjusted in the current year. In addition, the statement of cash flows reflects Kshs.46,265,907 as cash and cash equivalent at the end of year 2016-2017. However, the figure of Kshs.46,265,907 does not agree to cash and cash

equivalents balance of Kshs.47,029,702 as reflected in the statement of assets resulting to a variance of Kshs.763,795.

In the circumstances, the accuracy and completeness of the prior year adjustment of Kshs.763,794 as at 30 June 2017 could not be confirmed.

3. Bank Balances

The statement of assets reflects bank balance of Kshs.47,029,702 as at 30 June 2017. However, according to bank reconciliation statement as at 30 June 2017, the cash book balance was Kshs.46,877,159 resulting to a variance of Kshs.152,543. In addition, the bank reconciliation statement reflects payments in the bank statement not yet recorded in the cash book totaling Kshs.129,463. Audit examination of the unrecorded payments revealed that they relate to bank charges going back to year 2014. It was not clear why these were treated as reconciling items instead of writing them off as expenses in these financial statements.

Further, subsequent bank statements were not availed to confirm clearance of unpresented cheques. As a result, it was not possible to confirm the validity of the outstanding cheques.

Consequently, the accuracy and completeness of bank balance of Kshs.47,029,702 as at 30 June 2017 could not be confirmed.

4. Other Grants and Transfers

The statement of receipts and payments reflects a figure of Kshs.36,681,377 in respect to other grants and transfers for the year ended 30 June 2017. Included in other grants and transfers figure of Kshs.36,681,377 as detailed in Note 7 to the financial statements is road projects of Kshs.3,000,000. Records availed for audit verifications indicate that the road projects figure of Kshs.3,000,000 relates to disbursement to Kwa Omari Mwadunyo road project on 05 August 2016. However, according to annex 5 to the financial statements, the funds had not been spent as at 30 June 2017. It was not clearly explained why the project had not been implemented ten (10) months after the funds were disbursed. The residents will take longer to realize benefits from the project.

Consequently, value for money on roads projects expenditure of Kshs.3,000,000 for the year ended 30 June 2017 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 – Changamwe 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 Adverse Opinion section, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Controls and Performance

The Fund's overall budget for the year under review was Kshs.193,348,680 against total actual expenditure of Kshs.71,803,376 resulting to under absorption of Kshs.121,545,304 or 63% as summarized below:

Budget line	Final Budget	Expenditure	Unspent Balance	% of Utilization
Compensation to employees	7,018,324	3,604,441	3,413,883	51.4%
Use of Goods and services	9,678,123	5,003,616	4,674,507	51.7%
Transfer to other Government Units	75,991,381	20,263,326	55,728,055	26.7%
Other grants and transfers	89,960,852	36,681,377	53,279,475	40.8%
Acquisition of Assets	9,700,000	5,250,616	4,449,384	54.1%
Other payments	1,000,000	1,000,000	-	100.0%
	193,348,680	71,803,376	121,545,304	37.1%

The following were observations from the above analysis:

The fund had a total under-expenditure of Kshs.121,545,304 representing 62% of the budget. This implies that public funds were lying idle at the expense of goods and services delivery. The underutilization of the funds may have impacted negatively on the delivery of goods and services to the citizens of Changamwe or may be an indication of over-budgeting by the National Government Constituencies Development Fund – Changamwe Constituency.

2.0 Project Implementation Status

According to the project implementation status report as at 30 June 2017, the following twenty-nine (29) projects approved with a total budget of Kshs.96,420,394 were not completed during the period under review:

No	Project Name	Financial year	Activity	Project Allocation (Kshs)	Status
1	Airport Chiefs office/social Centre CDF Project	2015/2016	Construction of chiefs office and social centre	2,500,000	Ongoing
2	Airport Primary School	2015/2016	Construction of two classrooms	3,000,000	Not started
3	Airport Primary School	2013/2014	Purchase of land for the primary school	5,000,000	Ongoing
4	Airport Primary School	2014/2015	Construction of classrooms and administration block foundation	5,339,582	Not started
5	Bomu Primary School	2015/2016	Construction of social hall	5,000,000	Ongoing
6	Gome Primary School	2016/2017	Replacement of Asbestos roofing to 8 classrooms	3,000,000	Ongoing
7	Gome Primary School	2016/2017	Construction of Administration block	1,490,000	Ongoing
8	Gome Primary School	2014/2015	Construction of Administration block	1,000,000	Ongoing
9	Kwa Hola Primary school	2016/2017	Construction of three classrooms with storey foundation	3,000,000	Ongoing
10	Kwa Hola Primary school	2015/2016	Construction of three classrooms with high storey foundation	5,000,000	Ongoing
11	Kwa Hola Primary school	2014/2015	Construction of classrooms	1,500,00	Ongoing
12	Magongo Primary school	2016/2017	Construction of Administration block with storey foundation	4,000,000	Not started
13	Magongo primary school	2015/2016	Refurbishment by Re-roofing,Plastering,Paintin	5,000,000	Not started

			g,Floorng,Wiring and Ventilating		
14	Portreitz school for physically challenged	2014/2015	Construction of classroom	2,000,000	Ongoing
15	Umoja Primary school	2016/2017	Construction of two classrooms	2,201,381	Ongoing
16	Umoja Primary School	2014/2015	Replacement of dilapidated roof,floor,painting	837,931	Not started
17	Airport secondary School	2016/2017	2/3 acre plot acquisition and construction of two classrooms for storeyed foundation	20,000,000	Ongoing
18	Airport Secondary School	2015/2016	Purchase of land for construction of school	4,500,000	Not started
19	Changamwe secondary School	2014/2015	Rpair of roof,plastering, floor, doors, windows and painting of school hall	2,000,000	Not started
20	Changamwe secondary school	2013/2014	Purchase and installation of two 10,000 litres,plastic tanks,	250,000	Not started
21	Chaani Police Post CDF project	2015/2016	Construction of police post	2,500,000	Ongoing
22	Changamwe Chiefs office/social Hall CDF project	2015/2016	Construction of Chiefs office and social Hall	2,500,000	Ongoing
23	Changamwe police station cells CDF project	2015/2016	Construction of cells	1,500,000	Ongoing
24	Changamwe police station CDF water project	2015/2016	Drilling of water well	400,000	Not started
25	Changamwe police station	2015/2016	Construction of perimeter wall	1,000,000	Not started

	perimeter wall CDF project				
26	Kipevu Chiefs office/social centre CDF project	2015/2016	Construction of Chiefs office and social centre	5,000,000	Not started
27	Kwa Omari Mwadunyo Road	2014/2015	Gravelling of 1 KM road	3,000,000	Not started
28	Mlolongo CDF water project	2015/2016	Perimeter wall, piping, pump & water kiosk	5,000,000	Ongoing
29	Mwingi CDF water project	2015/2016	Completion of water well	400,000	Not started
	Total			96,420,394	

From the above report, some of the projects relate to the financial year 2014-2015 and it was not clearly explained why the projects were not completed although the projects had been approved by the National Government Constituencies Development Funds Board as per the approved budget.

Non-implementation of development projects affects goods and service delivery to the public and the intended purpose of the projects may not to be realized.

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 Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

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 National Government Constituencies Development Fund – Changamwe Constituency's ability to sustain 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 National Government Constituencies Development Fund – Changamwe Constituency'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 National Government Constituencies Development Fund – Changamwe Constituency'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 National Government Constituencies Development Fund – Changamwe

Constituency'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 National Government Constituencies Development Fund – Changamwe Constituency'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

11 July 2018