

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - CHERANGANY 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- Cherangany Constituency set out on pages 5 to 35, 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 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- Cherangany 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 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 Presentation and Accuracy of Financial Statements

A review of the financial statements availed for audit review revealed the following:

- 1.1. The statement of CDF Management responsibilities relates to the year ended 30 June 2016.
- 1.2. Pages 10 to 23 are missing in the set of financial statement presented for audit review. The values in the financial statements have not been rounded to the nearest shilling as stipulated in Policy 1 of the significant accounting policies in part VIII of the financial statements which state that all values in the financial statement have been rounded to the nearest shilling.
- 1.3 The statement of assets reflects retention figure of Kshs.12,781,124 which is at variance nil balance as disclosed in note 12 to the financial statements.

Further, no documentary evidence was availed to support retention figure of Kshs.12,781,124 as at 30 June 2017.

- 1.4 The statement of assets reflects nil fund balance brought forward which vary with the previous year balance of Kshs.12,781,124 resulting to a variance of Kshs.12,781,124.15 which has not been explained or reconciled.

Under the circumstances, the financial statements are not accurately presented in accordance with International Public Sector Accounting Standards as prescribed by Public Sector Accounting Standards Board.

2.0 Use of Goods and Services

2.1 Committee Expenses

Included in the use of goods and services figure of Kshs.5,382,090 reflected in the statement of receipts and payments is committee expenses figure of Kshs.1,028,514 relating to sitting allowances for committee meetings and monitoring and evaluation. However, invitation letters to attend the meeting, signed attendance register, minutes of the meeting attended and the monitoring and evaluation reports were not availed for audit verification.

Under the circumstances, the regularity of committee expenses of Kshs.1,028,514 for the year ended 30 June 2017 could not be confirmed.

2.2 Training Expenses

Included in the use of goods and services figure of Kshs.5,382,090 reflected in the statement of receipts and payments is training expenses figure of Kshs.1,275,000 against a budget Kshs.500,000 resulting to an over expenditure of Kshs.775,000. No evidence was provided to confirm whether the over expenditure was approved by the board.

Under the circumstances, the regularity of over expenditure of Kshs.775,000 for the year ended 30 June 2017 could not be confirmed.

2.3 Other Committee Expenses

Included in the use of goods and services figure of Kshs.5,382,090 reflected in the statement of receipts and payments is other committee expenses figure of Kshs.1,237,300 relating to sitting allowances for committee meetings and monitoring and evaluation. However, invitation letters to attend the meeting, attendance register, minutes of the meeting attended and the monitoring and evaluation reports were not availed for audit verification.

Under the circumstances, the regularity of committee expenses of Kshs.1,237,300 for the year ended 30 June 2017 could not be confirmed.

3.0 Transfer to Other Government Units

3.1 Unconfirmed Expenditure

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other government units balance of Kshs.67,745,000 relating to funds disbursed to primary schools, secondary schools, tertiary institutions and health institutions for various projects to be implemented by project management committees. However, actual expenditure returns from project management committees and acknowledgement letters from institutions that received funds were not availed for audit verification.

Under the circumstances, it was not possible to confirm whether the funds totaling Kshs.67,745,000 was actually received and utilized for the budgeted projects in the year under review.

3.2 Purchase of Land

Included in the transfer to other government entities figure of Kshs.67,745,000 reflected in the statement of receipts and payments is an expenditure of Kshs.4,900,000 incurred on purchase of land for various schools as shown below:

Date	Payee	Cheque No.	Amount (Kshs)
28.03.17	Ereng Kaplemur Primary school	13581	3,000,000
29.9.16	Kiboino Primary School	11810	900,000
10-Apr-17	Ekogoro Secondary school	13640	1,000,000
	Total		4,900,000

However, procurement records such as tender advertisement, tender evaluation and award minutes and letter of offer were not availed for audit review.

Further, ownership of the land was not verified as stipulated in Section 11(k) of the National Government Constituencies Development Fund Regulations, 2016 which states that where a project involves purchase of a parcel of land or a building, ensure that the ownership thereof is duly verified and ownership documents authenticated with relevant government agencies. In addition, the land title deeds, title search from Kitale lands office, valuation reports and sale agreements were not availed for audit verification.

Under the circumstances, the regularity of purchase of land expenditure Kshs.4,900,000 for the year ended 30 June 2017 could not be confirmed.

3.3 Purchase of School Buses

Included in the transfer to other government entities figure of Kshs.67,745,000 reflected in the statement of receipts and payments is purchase of school buses expenditure of Kshs.10,000,000 as shown below:

Date	Cheque Number	Payment Voucher Number	Payee	Amount (Kshs)
14-Mar-17	13564	220	Kesogon Secondary school	3,000,000
10-Apr-17	13638	225	Geta Secondary school	3,000,000
21-Jun-17	13745	252	Nyakinywa Secondary School	2,000,000
20-Jul-16	11740	4	Kapsigilai Sec School	2,000,000
			Total	10,000,000

However, procurement records such as tender advertisement, tender evaluation and award minutes, letter of offer, acceptance inspection and acceptance committee report were not availed for audit review. In addition, logbooks to confirm ownership of the buses were not availed for audit verification.

Under the circumstances, the regularity of purchase of buses expenditure Kshs.10,000,000 for the year ended 30 June 2017 could not be confirmed.

4.0 Other Grants and Transfers

4.1 Bursary- Secondary Schools

Included in the other grants and other payments figure of Kshs.46,254,573 reflected in statement of receipts and payments is total bursary expenditure of Kshs.20,424,500 which include bursary–secondary schools and bursary- tertiary institutions expenditure of Kshs.12,424,500 and Kshs.8,000,000 respectively. However, the list of the bursary subcommittee members and the criteria for vetting beneficiaries were not availed for audit verification. In addition, bursary–secondary schools expenditure of Kshs.12,424,500 is over the budgeted expenditure of Kshs.10,000,000 resulting to an over expenditure of Kshs.2,424,500 for which no Board approval was provided for audit review.

Under the circumstances, the propriety of the excess bursary expenditure of Kshs.2,424,500 for the year ended 30 June 2017 could not be confirmed.

4.2 Water Project

Included in other grants and transfers figure of Kshs.46,254,573 reflected in the statement of receipts and payments to the financial statements is water projects expenditure of Kshs.11,100,000 for the purchase of pipes for various water projects. However, available information revealed that these projects were not among projects approved by the CDF committee. Further, procurement records such as tender advertisement, tender evaluation and award minutes, letter of offer, acceptance inspection and acceptance committee report were not availed for audit review.

Under the circumstances, the regularity of the expenditure of Kshs.11,100,000 for the year ended 30 June 2017 could not be confirmed.

4.3 Security Projects

Included in the other grants and transfers figure of Kshs.46,254,573 reflected in the statement of receipts and payments is security projects expenditure of Kshs.4,600,000 for the construction of various Administration police and chiefs camps. However, procurement records such as bill of quantities, tender advertisement, tender evaluation and award minutes, letter of offer, contract agreement, minutes of site/inspection meetings and interim/completion certificates were not availed for audit review.

Under the circumstances, the regularity of Kshs.4,600,000 expenditure on security projects for the year ended 30 June 2017 could not be confirmed.

4.4 Roads Projects

Included in the other grants and transfers figure of Kshs.46,254,573 reflected in the statement of receipts and payments is roads projects expenditure of Kshs.3,218,944 for the construction of roads against a budget of Kshs.1,800,000 resulting in an over expenditure of Kshs.1,418,944 which was not approved. Further, procurement records such as bill of quantities, tender advertisement, tender evaluation and award minutes, letter of offer, contract agreement and completion/interim certificates were not availed for audit review.

Under the circumstances, the regularity of Kshs.3,218,944 expenditure on security projects for the year ended 30 June 2017 could not be confirmed.

4.5 Emergency Projects

Included in the other grants and other payments figure of Kshs.46,254,573 reflected in the statement of receipts and payments is emergency projects expenditure of Kshs.5,075,000. However, available information revealed that the projects funded were not emergency in nature. In addition actual expenditure returns were not availed for audit verification.

Under the circumstances, the regularity of emergency projects expenditure of Kshs.5,075,000 for the year ended 30 June 2017 could not be confirmed.

5.0 Bank Balances

5.1 Stale Cheques

The statement of assets reflects bank balance of Kshs.6,826,452. However, the bank reconciliation statement for the month of June 2017 reflects unrepresented cheques figure of Kshs.9,274,926 which include stale cheques totaling Kshs.108,114 which have not been reversed in the cash book.

Under the circumstances, the completeness and accuracy of bank balance of Kshs.6,826,451 as 30 June 2017 could not be confirmed.

6.0 Outstanding Imprests

The statement of assets reflects outstanding imprest figure of Kshs.210,395 issued to the Fund Account Manager which varies with the computed figure of Kshs.218,395 as shown below:

Date	Imprest warrant Number	Amount Issued (Kshs)	Amount Surrendered (Kshs)	Amount not Surrendered (Kshs)
31 May 2016	1575294	122,500	13,112	109,388
30 March 2017	205657	250,000	140,993	109,007
	Total	372,500	154,105	218,395

However, the resultant variance of Kshs.8,000 has not been explained or reconciled. Further, the imprest was partially accounted for and the balance of Kshs.210,395 has been outstanding for long. No explanation was provided the partial accounting of the imprest and the full amount not being recovered from the salary of the defaulting officer. Under the circumstances, the validity, accuracy and regularity of outstanding imprests balance of Kshs.210,395 as at 30 June 2017 could not be confirmed.

7.0 Unsupported Project Management Committee Bank Balances

Annex 4 of the financial statements reflect Project Management Committee (PMC) bank balances totalling to Kshs.4,211,927 as at 30 June 2017 which is at variance with note 15.4 to the financial statement nil balance resulting in unexplained variance of Kshs.4,211,927 In addition, cash books, bank confirmation certificates and bank reconciliation statements of the project management committee bank balances were not provided for review.

Consequently, the existence, accuracy and completeness of the project management committee bank balance of Kshs.4,211,927 as at 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- Cherangany 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, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Budget Absorption

During the year under review, the Fund had a total budget of Kshs.158,761,245 against expenditure of Kshs.120,776,123 resulting in under expenditure of Kshs.37,985,121 or 24% as shown below:

Item	Budget (Kshs)	Actuals Expenditure (Kshs)	Under/Over expenditure (Kshs)	% Under/Over Expenditure
Compensation of Employees	2,549,960	1,394,460	1,155,500	45
Use of goods and services	6,029,888	5,382,090	647,798	11
Transfers to Other Government Units	120,660,000	67,745,000	52,915,000	44
Other grants and transfers	23,883,000	46,254,573	(-22,371,573)	(94)
Other Payments	5,638,397	0	5,638,397	100
Totals	158,761,245	120,776,123	37,985,122	24

Funds not utilized amounting to Kshs.60,356,695 is an indication that some approved programs were not implemented and the excess expenditure of Kshs.22,371,573 is an indication that some projects were implemented without approval by CDF Board hence the budget did not meet wholly the objective of improving delivery of goods and service to the residents of Cherangany Constituency

1.2 Project Implementation

During the financial year ended 30 June 2017, the Fund had an approved budget of Kshs.158,761,245 . However, project status report as at 30 June 2017 showing list of projects, approved amount, balance disbursed, project commencement date, date of completion, approved expenditure, actual expenditure and level of completion was not availed for audit review. Under the circumstances, it has not been possible to confirm whether, the citizens of Cherangany Constituency received value for money on funds allocated to projects due for execution in the year ended 30 June 2017.

1.3 Projects Verification

Audit verification of seven (7) projects implemented during the year at a cost of Kshs.19,000,000 revealed the following:

	Project	Activity	Budget (Kshs)	Disbursements (Kshs)	Observation
1	Kapchepsir Technical Training Institute	Construction of 1 workshop, 3 lecture rooms and an office space all located	10,000,000	10,000,000	Plumbing works done though no running water through the taps,

		on ground floor			staff houses painted
2	Kiboino Primary School	Construction of 1 classroom and purchase of 1 acre of land	900,000	900,000	1 classroom was constructed and finishing done for 2 classrooms. Land was not purchased, there were disagreements with the land owner.
3	Sub-County AP Hqs	Construction of Ap staff houses-3 Units	2,000,000	2,000,000	Complete and In use.
4	St.Michael Moiben Primary School	Plastering, flooring, fixing doors & windows, painting	600,000	600,000	1 classroom complete, 2 classrooms still in progress
5	Ereng Kaplemur Primary School	Purchase of 5 acres of land	3,000,000	3,000,000	Land was purchased
6	Ereng Kaplemur Primary School	Construction of 1 classroom to completion	500,000	500,000	Complete and In use.
7	Tuigon Water Project	Building of water intake reserve tanks and purchase of water pipes	2,000,000	2,000,000	Water tank has intake of 65,000 litres. The land where the tank is was donated. The water source has another tank with 25,000 litres capacity. Water distribution to residents yet to begin
		Total	19,000,000	19,000,000	

Under the circumstance, the citizens of Cherangany Constituency may have not obtained value for money spent on projects totaling to Kshs.13,500,000 that were not completed and put into use.

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 going concern/ sustain services, 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's 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'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

30 July 2018