

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund-Ganze Constituency set out on pages 6 to 26, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Presentation of the Financial Statements

The financial statements for the year ended 30 June 2017 presented for audit had the following anomalies: -

- i. The numbering of the financial statements is not sequential as some page numbers are repeated.
- ii. Date of signing on pages 5 to 8 are missing in these financial statements.
- iii. The statement of receipts and payments is not signed.

In the circumstances, the financial statements presented for audit do not comply with International Public Sector Accounting Standards No.1 on presentation of financial statements as prescribed by the Public Sector Accounting Standards Board.

2. Inaccuracy of the Financial Statements

The financial statements for the year ended 30 June 2017 availed for audit had the following inaccuracies:

- i. The comparative statement of receipts and payments for the year ended 30 June 2016 reflects total payments of Kshs.80,690,636 while the audited accounts for year 2015/2016 reflects total payments of Kshs.80,597,075 resulting to unexplained variance of Kshs.93,561.
- ii. As previously reported, the comparative statement of assets reflects fund balance brought forward of Kshs.24,081,464 as at 30 June 2017 while the statement of cash flows reflects a balance of Kshs.24,084,464, resulting to a variance of Kshs.3,000 which has not been explained or reconciled.

Consequently, the accuracy and completeness of these financial statements could not be confirmed.

3. Other Receipts

Note 3 to the financial statements reflects other receipts amounting to Kshs.44,000. However, schedules and daily cash sales receipts were not availed for audit review.

In the circumstances, the accuracy and completeness of other receipts amounting to Kshs.44,000 for the year ended 30 June 2017 could not be confirmed.

4. Outstanding Imprest

As reported previously, note 11 to the financial statements reflects outstanding imprests of Kshs.3,129,360. The audit revealed that the imprests have been outstanding for more than two (2) years contrary Section 93 (5) of Public Finance Management National Government Regulations, 2015. Although the management has explained that these imprests have since been surrendered, documentary evidence to that effect has not been provided for audit verification.

Further, as previously reported, the statement of assets as at 30 June 2016 reflects opening outstanding imprests balance of Kshs.3,129,360 while the audited balance for the year 2014/2015 indicated a sum of Kshs.3,270,500, resulting to a variance of Kshs.141,140 which has not been explained.

Consequently, the regularity and completeness of outstanding imprest amounting to Kshs.3,129,360 as at 30 June 2017 could not be confirmed.

5. Emergency Projects

Note 7 to the financial statements reflects emergency projects amounting to Kshs.5,427,765. However, the management has not availed for audit payment vouchers totaling Kshs.3,504,679. Further, payment vouchers totaling Kshs.498,086 were paid for servicing, fueling of vehicles and car hire as detailed below:

PV No	Date	Payee	Description	Amount
4030183	12/01.17	Toyota Kenya	Servicing vehicle GK B036R	23,086
4030182	12/01.17	Kilifi Filing Station	Fueling Vehicle	100,000

4030140	9/11/2016	Ganze Inn Filling Station	Fueling Vehicle	300,000
4030097	17/10/16	Kibs Tours	KCC846S- Car hire	75,000
Total				498,086

This is contrary to the National Government Constituencies Development Fund Act, 2015 Section 6 (2).

Consequently, the validity, completeness and accuracy of emergency projects balance of Kshs.5,427,765 for the year ended 30 June 2017 could not be confirmed.

6. Use of Goods and Services

Note 5 to the financial statements reflects use of goods and services balance of Kshs.11,826,963 which includes other operating expenses amounting to Kshs.2,377,435. However, this amount includes Kshs.200,000 whose surrender documents were for persons who were not officers of the Ganze CDF. Further, the surrenders were for unspecified journeys.

In the circumstance, the propriety and regularity of the expenditure of Kshs.200,000 for the year ended 30 June 2017 could not be confirmed.

7. Acquisition of Assets

7.1. Construction of Buildings

Note 8 to the financial statements reflects acquisition of assets balance of Kshs.19,197,830 which includes construction of buildings amounting to Kshs.10,000,000. This amount was for construction of the Ganze Constituency Fund office building. However, the audit revealed that there were major changes of the design from the original plan, extension of one wing and changes of the design on windows which was done by works officer and the contractor without formal instructions on the drawing and approval from the Board. The management has not explained why the design was changed and the bill of quantities for the changed design were not availed for audit. Further, it has not been possible to ascertain if value for money has been obtained by the citizens of Ganze.

In the circumstance, the regularity and completeness of the construction of building amounting to Kshs.10,000,000 for the year ended 30 June 2017 could not be confirmed.

7.2. Purchase of Vehicles and Other Transport Equipment

Note 8 to the financial statements reflects purchase of vehicles and other transport equipment amounting to Kshs.8,599,350. However, this figure includes an amount of Kshs.55,000 paid for fitting the vehicle with a car tracking system that could not be

Report of the Auditor-General on the Financial Statements of National Government Constituencies Development Fund-Ganze Constituency for the year ended 30 June 2017

verified. Further, the ownership documents of Fund's motor vehicle registration GK 036 of Kshs.8,462,382 and Tractors with registration KAV 583K of Kshs.2,270,000, KAV 579K of Kshs.2,270,000 and KAV 578K of Kshs.2,270,000 were not availed for audit verification.

In the circumstance, the ownership of the motor vehicle and the tractors all valued at Kshs.15,272,382 could not be confirmed.

7.3. Unremitted Taxes

Note 8 to the financial statements reflects construction of buildings amounting to Kshs.10,000,000. However, the management did not withhold tax on the payments made to the contractor contrary to Section 42A (4-C) of the Tax Procedures Act, 2015. As a result, the management did not comply with the income tax requirements and possible fines and penalties accruing due to non-compliance was not provided for in these financial statements.

8. Other Grants and Other Payments

Note 7 to the financial statements for the year ended 30 June 2017 reflects other grants and other payments of Kshs.49,004,733 which includes roads projects amounting to Kshs.1,660,650. The funds were paid in respect to bush clearing, grading and gravelling of Mnango wa Dola Jira road project which is a devolved function. This is contrary to the National Government Constituencies Fund Act, 2015 Section 24(1). Further, the management did not avail the tender minutes and procurement documents to show how the contractor was procured for the project.

In the circumstance, the regularity and completeness of roads projects amounting to Kshs.1,660,650 could not be confirmed.

9. Transfers from Other Government Entities

As previously reported, the comparative statement of receipts and payments for the year ended 30 June 2016 reflects transfers from other Government entities of Kshs.103,281,441 while records maintained by the National Government Constituencies Development Fund Board reflect a figure of Kshs.70,000,000, resulting in a variance of Kshs.33,281,441 which has not been explained or reconciled. Consequently, the accuracy and completeness of Kshs.103,281,441 balance of transfers from other Government units for the year cannot be confirmed.

10. Budgetary Controls and Performance

The summary statement of appropriation: recurrent and development combined for the year ended 30 June 2017 indicates that the Fund had a final budget of

Kshs.169,610,749 and spent Kshs.152,331,347 or 90% resulting to under absorption of Kshs.17,279,402 or 10% of the budget as shown below:

Item	Budgeted Amount (Kshs)	Actual Expenditure (Kshs)	Under Absorption (Kshs)	Under Absorption (%)
Compensation of employees	4,055,944	1,614,174	2,441,770	60
Use of goods and services	15,812,830	11,826,963	3,985,867	25
Transfer to other Government units	62,449,310	69,187,647	2,802,193	(4)
Other grants and transfers	52,907,135	49,004,733	3,902,402	7
Acquisition of assets	23,345,000	19,197,830	4,147,170	18
Other payments	1,500,000	1,500,000	0	0
Total	169,610,749	152,331,347	17,279,402	10

The overall under-utilization of the budget amounting to Kshs.17,279,402 (10%) affected delivery of goods and services to the residents of Ganze Constituency.

11.0 Project Status

11.1 Complete Projects but not operational

The Fund spent Kshs.10,075,000 on ten (10) projects which since completion have never been put in to use as detailed below:

S/No	Project	Budget Allocation Kshs.	Payments as at 30 June 2017 Kshs.	Observations
1.	Lwandani Pri. School	250,000.00	250,000.00	Project is complete, unlabeled and not use
2.	Mwenge Pri. School	1,225,000.00	1,225,000.00	Project is complete, unlabeled and not in use
3.	Katendewa Pri. School	2,000,000.00	2,000,000.00	Project is complete, unlabeled and not in use
4.	Mwangea Pri. School	1,000,000.00	1,000,000.00	Project is complete, unlabeled and not in use
5.	Mwangea Pri. School	1,000,000.00	1,000,000.00	Project is complete, unlabeled and not in use
6.	Maojo Pri.School	800,000.00	800,000.00	Project is complete and not in use

7.	Petanguo Pri. School	800,000.00	800,000.00	Project is complete, unlabeled and not in use.
8.	Darajani Pri. School	1,000,000.00	1,000,000.00	Project is complete and not in use
9.	Nasoro Pri.School	1,000,000.00	1,000,000.00	Project is complete and not in use
10.	Bamba Pri. School	1,000,000.00	1,000,000.00	Project is complete and not in use
	Total		10,075,000.00	

It is not clear whether there was public participation before the projects were implemented. Consequently, the residents of Ganze Constituency did not get value for money spent on projects amounting to Kshs.10,075,000.

11.2 Project Verification

A total of fifteen (19) projects with a total allocation of Kshs.23,625,000 were verified during the audit. However, nine (9) projects with a total cost of Kshs.13,550,000 had stalled at various levels as detailed below:

	Project	Payments as at 30 June 2017 Kshs.	Observations
1	Jila Pri School	1,000,000	Project incomplete, unlabeled and in use. The roofing and exterior painting are incomplete
2	Kagambani Primary School	1,000,000	Project is incomplete, unlabeled and in use. However, the step to the classroom are too high for pupils.
3	Marere Pri. School	1,050,000.00	Project is incomplete, unlabeled and not in use
4	Mugumoni Pri.School	1,200,000.00	Project is incomplete and not in use
5	Muyuni Dispensary	500,000	Project is incomplete and not in use
6	Bandari Secondary School	1,500,000	Project is incomplete but in use
7	Magogoni Secondary	3,800,000	Project is incomplete but in use
8	Mwangea Secondary School	1,000,000	Project is incomplete and not in use
9	Ambasador Kithi Secondary School	2,500,000	Project is incomplete but in use
	Total	13,550,000	

The projects were to be implemented and completed within the financial year, however the management has not explained why the projects were abandoned.

Consequently, the residents of Ganze Constituency may not be getting value for money on Kshs.13,550,000 used in the stalled projects.

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-Ganze Constituency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the National Government Constituencies Development Fund-Ganze Constituency or 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 National Government Constituencies Development Fund-Ganze Constituency's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the National Government Constituencies Development Fund-Ganze Constituency's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of National Government Constituencies Development Fund-Ganze 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

02 August 2018