

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND–IGEMBE NORTH 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 – Igembe North Constituency set out on page 5 to 22, 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 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

1.0 Late submission of Financial Statements

Section 81 of the Public Finance Management Act, 2012 requires that at the end of each financial year, the accounting officer for a national government entity shall prepare financial statements in respect of the entity in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time. The Act further states that within three months after the end of each financial year, the accounting officer for an entity shall submit the entity's financial statements to the Auditor-General. In addition, Section 47 of the Public Audit Act, 2015, requires all public entities to submit their financial statements to the Auditor-General within three months after the end of each financial year. However, the Fund submitted accounts to the Auditor-General on 09 November 2017, which was over one month after the Constitutional deadline.

Under the circumstance, the Fund was in breach of Section 81 of the Public Finance Management Act, 2012 and Public Audit Act, 2015 Section 47.

2.0 Presentation of Financial statements

The International Public Sector Accounting Standards (Cash Basis) financial statements presentation format prescribed by the Accounting standards Board requires the inclusion of a separate recurrent summary statement of appropriation a

separate development summary statement of appropriation and a combined summary statement of appropriation for both recurrent and development. However, the financial statement for the year under review only included the combined summary statement of appropriation but did not include a separate recurrent summary statement of appropriation and a separate development summary statement of appropriation.

Consequently, the presentation of the financial statements for the year under review did not conform to the format prescribed by the Public Sector Accounting Standards Board and the National Treasury under International Public Sector Accounting Standards (Cash Basis).

3.0 Accuracy and Completeness of the Financial Statements

3.1 Accuracy of the Fund's Expenditure

The financial statements for the year under review, reflects an overall expenditure of Kshs.138,674,915 as at 30 June 2017. However, the respective ledgers and annual returns were not made available for audit review.

Further, the financial statements reflects a balance of Kshs.107,488,652 as at 30 June 2017 on fourteen (14) items while cash book reflects a balance of Kshs.104,698,111 resulting in an unexplained and unreconciled overstatement of the financial statements by Kshs.2,790,541 as follows;

Component	Financial Statements (Kshs.)	Cash book (Kshs.)	Variance (Kshs.)
Committee Expenses	5,147,000	4,431,371	715,629
Other Operating Expenses	2,574,579	1,361,834	1,212,745
Transfer to Primary Schools	22,500,000	23,650,000	(1,150,000)
Transfer to Secondary Schools	14,400,000	15,050,000	(650,000)
Bursary to Secondary Institutions	10,797,816	10,606,919	190,897
Bursary to Tertiary Institution	8,066,190	5,212,090	2,854,100
Bursary to Special Schools	106,000	-	106,000
Water Projects	10,672,125	10,572,125	100,000
Security Projects	21,130,000	19,700,000	1,430,000
Other Capital Grants	4,883,402	3,700,000	1,183,402
Emergency Projects	4,480,000	5,013,600	(533,600)
Environment Projects	-	2,483,213	(2,483,213)
Office and General Supplies	480,000	576,960	(96,960)
Compensation of Employees	2,251,540	2,339,999	(88,459)
	107,488,652	104,698,111	2,790,541

In the circumstances, the accuracy of the financial statements balances as at 30 June 2017 could not be ascertained.

3.2 Accuracy of Approved Budgeted Amounts

The summary statement of appropriation reflected an approved budget of Kshs.142,467,477 for receipts and Kshs.136,723,489 for payments resulting in a surplus of Kshs.5,743,988. However, the approved budget made available for audit had a budget of Kshs.138,657,260 for receipts and a similar amount for payments creating unexplained difference of Kshs.3,810,267 and Kshs.1,933,771 for the budgeted payments and receipts respectively between the financial statement balances and the approved budget figures as shown below:

Receipts	Summary Statement of Appropriation (Kshs.)	Approved Expenditure Budget (Kshs.)	Variance (Kshs)
Transfers from CDF Board	142,467,477	138,657,210	3,810,267
Total	142,467,477	138,657,210	3,810,267
Expenditure Analysis			
Compensation of Employees	2,200,000	2,955,120	(755,120)
Use of Goods and Services	9,031,578	6,587,676	2,443,902
Transfer to Other Government Unit	41,383,300	40,600,000	783,300
Other Grants and Transfers	-	88,514,464	(88,514,464)
Other Payments	84,108,611	-	84,108,611
Total	136,723,489	138,657,260	(1,933,771)

The accuracy of the budgeted amounts reflected in the financial statements as at 30 June 2017 could not be confirmed.

In view of the foregoing, it has not been possible to ascertain the accuracy and completeness of the financial statements as at 30 June 2017.

4.0 Unaccounted for Project Funds

4.1 Linjoka Secondary School

During the financial year under review, the Fund transferred Kshs.1,000,000 through cheque numbers 2341 and 2343 of Kshs.500,000 each dated 14 July 2016 to Linjoka Secondary School for construction of a laboratory. However, records of Project

Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not provided for audit review. Further, physical inspection done on 18 April 2018 revealed that the project had stalled at the roofing stage.

In the circumstances, the propriety and value for money of the Kshs.1,000,000 expenditure at Linjoka Secondary School as at 30 June 2017 could not be ascertained.

4.2 Linjoka and Kaelo Dispensaries

During the financial year under review, the Fund transferred Kshs.1,500,000 through cheque numbers 2392 and 2393 of Kshs.900,000 and Kshs.600,000 respectively each dated 18 July 2016 to Linjoka Dispensary for completion of the Linjoka dispensary. The Fund also transferred Kshs.300,000 through cheque number 2395 dated 18 July 2016 to Kaelo Dispensary for completion of Kaelo dispensary. However, the respective accounting documents, expenditure returns, bank statements and inspection certificates were not provided for audit review. Further, the funding of the dispensaries was contrary to Section 11 (1) (e) of the National Government Constituencies Development Fund Regulations, 2016 as health falls within the functions of the County Government under the Constitution. In addition, physical inspection done on 18 April 2018 revealed that the two projects were complete but not in use.

Consequently, the Fund was in breach of law and value for money of the Kshs.1,800,000 expenditure at Linjoka and Kaelo dispensaries as at 30 June 2017 could not be ascertained.

4.3 Murweti Dispensary

During the financial year under review, the Fund transferred Kshs.500,000 through cheque numbers 2394 dated 18 July 2016 to Murweti dispensary for completion of the Murweti dispensary. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not provided for audit review. Further, physical inspection done on 18/04/2018 revealed that the project had stalled after walling, roofing, and fixing of doors and windows. In addition, the funding of the dispensary was contrary to Section 11 (1) (e) of the National Government Constituencies Development Fund Regulations, 2016 as dispensaries are devolved to County Governments under the Constitution.

In the circumstances, the Fund was in breach of law and there was no value for money of the Kshs.500,000 expenditure at Murweti dispensary as at 30 June 2017.

4.4 Installation of Community Electricity Transformers

During the financial year under review, the Fund transferred Kshs.7,500,000 for installation of four (4) transformers at Barenta, Mburanjiru, Kantali and Anjalu primary schools. However, physical inspection of the Barenta and Mburanjiru transformers done on 18 April 2018 revealed that the projects had not been labelled contrary to Section 15 (2) of the National Government Constituencies Development Fund Regulations, 2016. Further, handing over reports by the Project Management Committee to the four schools as required Section 15(3) of the National Government Constituencies Development Fund Regulations, 2016 were not made available for audit review.

In the circumstances, the propriety and value for money of the Kshs.7,500,000 expenditure of electricity projects as at 30 June 2017 could not be confirmed

4.5 Laare Police Station

During the financial year under review, the Fund transferred Kshs.3,500,000 for completion of an administration block ground floor, from walling, fixtures and fittings, Shutter slab and finishing at Laare Police Station. However, the respective accounting documents, bank statements, quotations, and inspection certificates were not provided for audit review. Further, a physical verification of the project done on 18 April 2018 revealed that although the walling was done to lintel level and structure made ready for concrete shutter slab, the project stalled and the shutter slab was not done. In addition, the shutter structure and materials on site as at the time of verification had deteriorated due to weather conditions resulting to a wasteful expenditure contrary to Section 191(1) of the Public Finance Management Act, 2012. The value of works done could not be established, as the respective interim certificates for work done were not made available for audit.

In the circumstances, the propriety and value for money of the Kshs.3,500,000 expenditure at Laare police station as at 30 June 2017 could not be ascertained.

4.6 Kalerene AP Camp Ghost Staff Houses

During the financial year under review, the Fund transferred Kshs.1,500,000 through cheque numbers 2596, 2597 and 2598 dated 19 December 2016 of Kshs.500,000 each to Kalerene AP Camp for construction of 2 staff houses. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not provided for audit review. Further, a physical verification done on 18 April 2018 revealed that there were no permanent buildings constructed at the AP Camp.

In the circumstances, it has not been possible to ascertain the propriety and value for money of the Kshs.1,500,000 expenditure at Kalerene AP Camp ghost staff houses as at 30 June 2017.

4.7 Kinisa GSU Camp

During the financial year under review, the Fund transferred Kshs.2,000,000 through cheque numbers 2629 and 2630 of Kshs.500,000 each dated 06 January 2017 and cheque numbers 2933 and 2934 for Kshs 500,000 each dated 14 February 2018 to Kinisa GSU camp being payment for construction of 2 staff houses and Administration block. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not provided for audit review. Further, physical verification done on 18 April 2018 revealed that although the building stones and ballast had been delivered at the camp no building had been constructed.

In the circumstances, the propriety and value for money of the Kshs.2,000,000 expenditure at Kinisa GSU Camp as at 30 June 2017 could not be ascertained.

4.8 Antuambui Chief's Camp

During the financial year under review, the Fund transferred Kshs.1,000,000 through cheque numbers 2366 and 2367 dated 14 February 2017 for Kshs.500,000 each to Antuambui Chief's Camp project for construction of Chief's office. The tender was awarded to Utumishi Contractors Limited at a non-disclosed contract sum at a quoted price of Kshs.1,214,906. However, the respective procurement documents, accounting documents and the valuation certificate for works done were not availed for audit. Further, a physical verification done on 18 April 2018 revealed poor workmanship as the floor had cracks and the office was not in use.

In the circumstances, the propriety and value for money of the Kshs.1,000,000 expenditure at Antuambui Chief's Camp as at 30 June 2017 could not be ascertained.

4.9 Kalerene Water Tank

During the year under review, the Fund transferred Kshs.1,000,000 through cheque numbers 2587 and 2588 for Kshs.500,000 each dated 19 July 2016 through payment voucher numbers 95 dated 19 December 2016 to Kalerene Water Tank project, for the construction of water catchment roof and water reservoir. However, records of Project Management Committee minutes, accounting documents, expenditure returns, and bank statements, bill of quantities, quotations, and inspection certificates were not availed for audit review. Further, physical verification done on 18 April 2018 revealed that although the tank had been constructed it was incomplete and had developed cracks due to poor workmanship.

In the circumstances, the propriety and value for money of the Kshs.1,000,000 expenditure for Kalerene Water Tank project as at 30 June 2017 could not be confirmed.

4.10 Murungene District Education Officer's Office

During the financial year under review, the Fund transferred Kshs.1,200,000 through cheque numbers 2377 and 2378 of Kshs.600,000 each dated 19 December 2016 to Murungene District Education Officer's Office project for completion of an office. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not availed for audit review. Further, a physical verification done on 18 April 2018 revealed that the project had stalled at the lintel level and no further works were ongoing. In addition, there was no evidence that the construction was on a public land as ownership documents for the land where the office was being constructed were not made available for audit.

In the circumstances, the propriety and value for money for the Kshs.1,200,000 expenditure for Murungene District Education Officer's Office project as at 30 June 2017 could not be confirmed.

4.11 Anjalu Storage Tank

During the financial year under review, the Fund transferred Kshs.1,200,000 through cheque numbers 2383 and 2384 of Kshs.600,000 each dated 18 July 2016 as grant to Anjalu Storage Tank project, for the construction of water catchment roof and storage tank. However, the respective procurement documents, accounting documents and the valuation certificate for works done were not availed for audit. Further, the District Water Officer's bills of quantities attached to the payment voucher, gave specifications of a 75M³ masonry water tank while the bidders gave quotations for a 50M³ Masonry water tank. In addition, physical verification done on 18 April 2018 revealed that the tank was not in use due to poor workmanship and the gutters harvesting rain water from the classrooms were disjointed from the harvesting tank and redirected to another Plastic water tank of a smaller capacity.

In the circumstances, the propriety and value for money of the Kshs.1,200,000 expenditure for Anjalu storage Tank project as at 30 June 2017 could not be confirmed.

4.12 Luciuti Dispensary Borehole

During the financial year under review, the Fund transferred Kshs.500,000 through cheque numbers 2510 dated 18 July 2016 as grant to Luciuti Dispensary Borehole project, for unspecified works. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not availed for audit review. Further, the project had previously (in the financial year 2015/2016) been funded with Kshs.3,600,000. A physical verification, done on 18 April 2018 revealed that a casing was fitted but there was no evidence that the borehole existed and had water.

In the circumstances, the propriety and value for money of the Kshs.500,000 expenditure for Luciuti Dispensary Borehole project as at 30 June 2017 could not be confirmed.

4.13 Road Projects

During the financial year under review, the Fund transferred Kshs.11,250,000 to road projects. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not availed for audit review.

In the circumstances, the propriety and validity of the Kshs.11.250,000 expenditure on roads projects as at 30 June 2017 could not be confirmed.

4.14 Sports

During the financial year under review, the Fund transferred Kshs.3,859,264 through payment voucher number 9 dated 18 July 2016 to Igembe North CDF Sports Account as grant for sports. However, the respective records of project management committee minutes, accounting documents, expenditure returns, and bank statements, stores records, and inspection certificates were not availed for audit review.

In the circumstances, the propriety and validity of the Kshs.3,859,264 expenditure on sports projects as at 30 June 2017 could not be confirmed.

4.15 Linjoka Primary School

During the financial year under review, the Fund transferred Kshs.650,000 through payment voucher number 93 dated 19 December 2016 to Linjoka primary school project for construction of classroom. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bill of quantities, quotations, and inspection certificates were not availed for audit review. Further, a physical verification done on 18 April 2018 revealed that the project had stalled at the lintel level. There was no explanation given as to why the construction had stalled yet funds were disbursed to the project account in December 2016.

In consequence, the propriety and value for money of the Kshs.650,000 expenditure on construction of classroom at Linjoka primary school as at 30 June 2017 could not be confirmed

4.16 Laare-Kilera Primary School Road

During the financial year under review the Laare-Kilera primary school road was allocated and funded with Kshs.1,000,000.00 for grading of a two (2) Kilometers road. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not availed for audit review. Further, no documents were availed to show that the relevant government department was consulted in the development of bills of quantities and implementation of the project contrary to Section 15 (1) (a) of the National Government Constituencies Development Fund (NG-CDF) Regulations, 2016. In addition, the handing over reports from the project management committee to the Fund as required by Section 15 (3) of the NG-CDF Regulations, 2016 were not made available for audit review. Further, a physical verification of the roads could not be carried out as the details and chainage of the section of the roads that was graded were not availed for audit.

In the circumstances, the propriety and value for money of the Kshs.1,000,000 expenditure on grading of Laare-Kilera Primary School Road as at 30 June 2017 could not be confirmed.

4.17 AIPCA Kiromwathi Primary School

During the financial year under review, the Fund transferred Kshs.700,000 through cheque number 2941 dated 19/12/16 to AIPCA Kiromwathi Primary School for purchase of land. However, records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements and ownership documents were not made available for audit review and therefore it was not possible to physically verify the status of the project

In the circumstances, the propriety and value for money of the Kshs.700,000 expenditure on purchase of land as at 30 June 2017 could not be confirmed.

4.18 Boda Boda Training

During the financial year under review, the Fund awarded a tender through quotations for training boda boda riders at a contract sum of Kshs.3,000,000. The tender was paid through voucher number 134 dated 21/03/2017 for training of 75 drivers and 225 boda boda riders. However, open tender procurement method ought to have been used as the Kshs.3,000,000; was above the set limit of Kshs.500,000 for class C entities for using quotations as per to the first schedule threshold matrix annexed to the Public Procurement and Disposal (Amendment) Regulations, 2013. Further, there was no documentary evidence showing that the youths applied for training including copies of driving licenses to ascertain that the training actually took place. In addition, the approved budget was Kshs.1,000,000 whereas the Fund spent Kshs.3,000,000 resulting in an unauthorized expenditure of Kshs.2,000,000 contrary to Section 52 (1) (a) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the Fund was in breach of law and the propriety and value for money of the Kshs.3,000,000 expenditure for boda boda training as at 30 June 2017 could not be confirmed.

4.19 Unaccounted for Bursaries

During the financial year under review, the Fund spent Kshs.15,819,009 against a budget of Kshs.19,543,103 for bursaries resulting into an under-expenditure of Kshs.3,724,094. However, the respective records for bursary applications, minutes of bursary committee meetings and minutes of awarding to the beneficiaries were not made available for audit.

In the circumstances, it was not possible to ascertain the propriety of the Kshs.15,819,009 expenditure including confirming whether the bursary funds were disbursed to needy students.

4.20 Mutuati Social Hall

During the financial year under review, the Fund transferred Kshs.3,700,000 to Mutuati Social Hall project. However, the respective records of Project Management

Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not availed for audit review. Further, physical verification done on 18 April 2018 revealed that the project had stalled at the lintel level and no further works were ongoing.

As a result, the propriety and value for money of the Kshs.3,700,000 expenditure on Mutuati Social Hall as at 30 June 2017 could not be confirmed.

4.21 Environment

During the financial year under review, the Fund transferred Kshs.2,483,213 through payment voucher number 42 dated 27/9/2016 to Igembe North Environment project for environmental activities. However, the respective records of Project Management Committee minutes, accounting documents, expenditure returns, bank statements, bill of quantities, quotations, and inspection certificates were not availed for audit review. In the circumstances, the propriety and value for money of the Kshs.2,483,213 expenditure on environmental activities as at 30 June 2017 could not be confirmed.

5.0 Budget and Budgetary Control

The financial statements for year under review, reflects a budget of Kshs,136,723,489 and an actual expenditure of Kshs.138,674,916 representing an absorption rate of 101% of the total reported budget resulting in an over-expenditure of Kshs.1,951,457. However, the approved budget reflects a budget of Kshs.138,657,260 comprising of Kshs.60,760,657 brought forward from the financial year 2015/2016 and Kshs.77,896,553 for financial year 2016/2017 while the cash book reflects an actual expenditure of Kshs. 135,884,375 representing an absorption rate of 98% of the total approved budget. A comparison of the Kshs.138,657,260 approved budget for the year and the Kshs. 135,884,375 actual expenditure as per the cash book gave a variance/under expenditure of Kshs. 2,772,885 as follows;

Expenditure Analysis	Budgeted expenditures (Kshs.)	Expenditure as per cash book (Kshs.)	Variance (Kshs.)	Absorption %
Compensation of Employee	2,955,120	2,339,999	615,121	79%
Use of Goods and services	6,587,676	7,200,165	(612,489)	109%
Transfer to Other Government Unit	40,600,000	43,183,000	(2,583,000)	106%
Other Grants and Transfers	88,514,464	83,161,211	5,353,253	94%
Total	138,657,260	135,884,375	2,772,885	98%

In the circumstances, the Constituents of Igembe North did not receive expected services equivalent to Kshs.2,772,885 being under-expenditure as at 30 June 2017.

6.0 Projects Implementation Status

The Fund budgeted to implement projects worth Kshs.70,525,862 during the financial year ended 30 June 2017 as follows;

Sector	Amount Allocated (Kshs.)
Sports	1,637,931
Bursaries	18,543,103
Education	12,650,000
Other Grants and Transfers	6,700,000
Health	800,000
Water	5,600,000
Roads	6,800,000
Security	13,700,000
Emergency	4,094,828
Total	70,525,862

However, the project implementation status for the respective projects were not availed for audit review. Hence, it was not possible to confirm the status of the projects in respect to those started, ongoing and completed as at 30 June 2017.

In the circumstances, it was not possible to ascertain that the Kshs.70,525,862 earmarked for projects was spent as appropriated 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 Fund's ability to continue to sustain its 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.

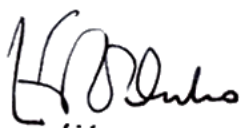
Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

My responsibility is to conduct an audit of the Fund'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 matter 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 – Igembe North 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

15 October 2018