

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies' Development Fund - Kaloleni Constituency set out on pages 7 to 26, which comprise the statement of financial assets and liabilities 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies' Development Fund - Kaloleni 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 comply with National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matters sections of my report, based on the procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services of Kshs.7,371,426. However, the schedules availed in support of the same lacked details of actual payees and specific details of items purchased or services rendered. The following further observations were made:

1.1 Committee Allowances

Note 5 to the financial statements reflects committee allowances of Kshs.2,885,000. However, payment vouchers availed for audit review amounted to Kshs.5,134,548, resulting in a variance of Kshs.2,249,000 and which has not been explained or reconciled. Further, the expenditure was not supported with bus/work tickets as evidence of journeys travelled, nature of allowances paid, amount paid per person per year and dates of the meetings. The trips indicated in the support schedule were not

availed for audit review. The management has also not explained the source of extra funds of Kshs.2,249,000.

Consequently, regularity, accuracy and completeness of the Kshs.5,134,548 on the entire committee allowances could not be confirmed.

1.2 Routine Maintenance – Vehicles and Other Transport Equipment

Note 5 to the financial statements reflects routine maintenance – vehicles and other transport equipment expenditure of Kshs 395,200 in respect of service and repair of motor vehicles. However, pre and post service mechanical inspection report to confirm repair work done were not availed for audit review and the repaired defects were not recorded in the work ticket.

Consequently, propriety and completeness of Kshs.395,200 on routine maintenance – vehicles and other transport equipment could not be confirmed.

2. Transfers to Other Government Units

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other Government units of Kshs.85,666,947. However, the following observations were made:

2.1 Transfers to Primary and Secondary Schools – Renovation

Note 6 to the financial statements reflects transfers to primary schools of Kshs.39,300,000 and transfers to secondary schools of Kshs.37,330,606, all amounting to Kshs.76,630,606. Included in this amount is Kshs.20,000,000 on renovation of twenty(20) schools, each of which was allocated Kshs.1,000,000 for renovation of four(4) classrooms. However, names of eighteen (18) schools which received Kshs.18,000,000, nature of renovation work, bills of quantities(BQs) and inspection and acceptance committee reports to confirm quality and quantity of work done were not availed for audit verification.

Consequently, regularity of the Kshs.18,000,000 transferred to primary and secondary schools for renovations could not be confirmed.

2.2 Transfers to Tertiary Institutions

Note 6 to the financial statements reflects transfers to tertiary institutions of Kshs.8,825,000 in respect of Constituency Desks Project for seventy-six(76) schools. Records availed for audit review indicated that 1,183 desks costing Kshs.5,855,850 at Kshs.4,950 each were delivered to sixteen(16) schools. However, the number of desks supplied to the remaining sixty (60) schools, supporting delivery notes and inspection and acceptance committee reports were not availed for audit verification. Further, the supporting quotations availed for audit review showed that only five hundred and seventy (570) desks at Kshs.4,950 each, all amounting to Kshs.2,821,500 were required for the project resulting to a difference of Kshs.6,003,500 which was not explained.

Consequently, validity and regularity of the Kshs.8,825,000 transferred to tertiary institutions could not be confirmed.

2.3 Transfers to Secondary Schools – School Bus

Note 6 to the financial statements reflects transfers to secondary schools of Kshs.37,330,606, out of which Kshs.12,000,000 was transferred to Chanagande Secondary School and Tsangatsini Secondary School for purchase of school buses at Kshs.6,000,000 each. However, the tender advertisement for the procurement was not availed for review. This is contrary to the Public Procurement and Disposal (Amendment) Regulations, 2013 Threshold Matrix for Class C Procuring Entities, which sets a minimum of Kshs.4,000,000 for use of open tender method of procurement.

Consequently, regularity of expenditure of Kshs.12,000,000 on transfers to other government units could not be confirmed.

3. Other Grants and Transfers

3.1 Irregular Funding of Projects

The statement of receipts and payments reflects other grants and transfers of Kshs.52,900,760. Included in this amount is Kshs.6,250,000 for emergency projects which includes Kshs.5,750,000 on water projects.

However, water projects fall under devolved functions, hence expenditure of Kshs.5,750,000 on the same is contrary to the requirement of Section 24 of the National Government Constituencies Development Fund Act, 2015 which provides that 'a project under this Act shall only be in respect of works and services falling within the functions of the National Government under the Constitution'. Further, evidence that the opinion of the Constituencies Development Fund Committee was sought to spend on emergency projects was not availed for audit verification. This is contrary to Section 8(3) of the National Government Constituencies Development Act, 2015 which defines an emergency as an 'urgent, unforeseen need for expenditure for which it is in the opinion of the Committee cannot be delayed until the next financial year without harming the public interest of the constituents'.

Further, the bank statements to confirm receipt of the funds, bills of quantities, quotations, contract agreements, certificates of completion and inspection and acceptance committee reports were not availed for audit review.

Consequently, the expenditure amounting to Kshs. 5,750,000 on emergency projects was irregular.

3.2 Security Projects

3.2.1 Kawala/ Kadzonzo Assistant Chief's Office

Note 7 to the financial statements reflects Kshs.19,500,000 in respect of security projects. The amount includes Kshs,2,000,000 on construction of Kawala/ Kadzonzo Assistant Chief's office at a contract sum of Kshs.1,832,202. Although available records indicate that the office is situated on land whose ownership is in dispute, it was explained that the court has ruled in favour of the Government. However, the court ruling was not availed for audit verification.

Consequently, propriety of the Kshs.2,000,000 on security projects could not be confirmed.

3.2.2 Tsangatsini Chief's Office

Note 7 to the financial statements reflects Kshs.19,500,000 in respect of security projects. Out of that amount, 2,000,000 was for construction of Tsangatsini Chief's Office. However, the project's tender documents, bank statements and certificates of completion were not availed for audit review. Further, when the project was inspected in the month of June 2018, it was complete and in use with second retention money amounting to Kshs.92,000 already released.

Consequently, propriety and completeness of Kshs.4,000,000 on security projects for the year ended 30 June 2017 could not be confirmed.

3.3 Sports Projects

Note 7 to the financial statements reflects sports projects expenditure of Kshs.1,564,630. However, bank statements, counter receipt vouchers (S.13), counter requisition and issue vouchers (S.11) and stores ledger cards (S.3) to confirm receipt, recording and issuance of the items for official use and list of beneficiaries were not availed for audit review.

Consequently, propriety and completeness of the Kshs.1,564,630 on sports projects could not be confirmed.

3.4 Environment Projects

Note 7 to the financial statements reflects environment projects expenditure amounting to Kshs.4,164,630 which was paid to a supplier for supply of certified tree seedlings for distribution to fifteen (15) institutions equally at a contract sum of Kshs.1,556,034. The supplier was overpaid by Kshs.2,608,596 being excess of amount paid over the contract sum. Further, delivery notes for 1,284 tree seedlings were not signed by recipients nor inspection and acceptance committee reports and distribution lists of the tree seedlings availed for audit review.

Consequently, propriety, accuracy and completeness of Kshs.4,164,630 on environment projects could not be confirmed.

6. Bank Balance

The statement of financial assets as at 30 June 2017 reflects a bank balance of Kshs.7,220,750. The Fund's bank reconciliation statement as at 30 June 2017 availed

in support of this balance reflects un-presented cheques of Kshs.1,224,493, out of which Kshs.5,193 is in respect of stale cheques not reversed in cash book. Subsequent bank statements to confirm when cheques amounting to Kshs.1,219,300 were subsequently cleared by the banks were not availed for audit review. Further, certificate of bank balance as 30 June 2017 was not availed for audit review.

Consequently, the accuracy, validity and completeness of the bank balance of Kshs.7,220,750 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund – Kaloleni 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 Qualified Opinion section of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Performance and Analysis

During the year under review, the Fund had expenditure budget of Kshs.186,352,698 against actual expenditure of Kshs.148,183,673 or 79.5%, resulting in an under expenditure of Kshs.38,169,025 (20.5%) as detailed below:

Item	Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Under Expenditure (Kshs.)	%
Compensation of Employees	3,317,960	2,095,999	1,221,961	37
Use of Goods and Services	14,850,336	7,371,426	7,478,910	50
Transfers to Other Government Units	96,181,035	85,666,948	10,514,087	11
Other Grants and Transfers	71,854,827	52,900,760	18,954,067	26
Acquisition of Assets	148,540	148,540	0	0
Total	186,352,698	148,183,673	38,169,025	20.5

The under expenditure of Kshs.38,169,025 or 20.5% indicates a budget which was not implemented in accordance with the provisions of Section 220(1) of the Constitution of Kenya which requires budgets of national government to contain estimates of revenue and expenditure, differentiating between recurrent and development and proposals for financing any budget deficit for the period to which they apply. Further, it contravenes Section 35(1) of the Public Finance Management Act, 2012 which

requires the budget process for the national Government to comprise among other things integrated long term and medium term planning, planning and determining financial and economic policies and priorities at the national level over the medium term and implementing the budget. As such, delivery of goods and services to residents of Kaloleni Constituency may have been curtailed.

2. Projects Implementation Status

The projects implementation status report as at 30 June 2017 for National Government Constituencies Development Fund – Kaloleni Constituency availed for audit review did not indicate the total budgetary allocations for each project, total disbursements and expenditure on each project as at 30 June 2017 and the percentage of completion. As such, it was not possible to ascertain the number of projects implemented, activities undertaken, funding levels and stages of completion as at 30 June 2017.

3. Projects Verification

During the audit, thirteen (13) projects costing Kshs.28,825,000 were inspected in the month of June 2018 and anomalies/defects found in nine(9) with a cost of a Kshs.14,000,000 as detailed below:

No	Project	Activity	Amount (Kshs.)	Anomalies/Defects Noted
1	Kizurini Primary School	Renovation of classrooms	1,000,000	The expenditure was not supported with Bill of Quantities, contract agreement, quotations and certificates of completion. Further, the specific sections renovated could not be identified by the management for audit verification.
2	Nguluweni Primary School	Construction of 2 classroom block	3,000,000	The expenditure was not supported with architectural drawings, Bill of Quantities, quotations, contract agreement and certificates of completion. The project was complete when it was verified.
3	Chanagande Primary School	Renovation of 4 classrooms	1,000,000	The expenditure was not supported with Bill of Quantities, quotations, contract agreement and certificates of completion. Further, sections renovated could not be identified by the management for audit verification.
4	Mwandaza Primary School	Renovation of 4 classrooms	1,000,000	The expenditure was not supported with Bill of Quantities, quotations, contract agreement and certificates of completion. Further, sections renovated could not be identified by the management for audit verification.
5	Birini Mwamleka Primary School	Renovation of 4 classrooms	1,000,000	The expenditure was not supported with Bill of Quantities, quotations, contract agreement and certificates of completion. During the project audit visit, sections renovated could not be identified by the management for audit verification.
6	Mtsengo Primary School	Renovation of 4 classrooms	1,000,000	The expenditure was not supported with Bill of Quantities, quotations, contract agreement and certificates of completion nor sections renovated identified by the management for audit verification.

7	Kizurini Secondary School	Renovation of 2 classrooms	500,000	The expenditure was not supported with Bill of Quantities, quotations, contract agreement and certificates of completion nor sections renovated identified by the management for audit verification
8	Chanagande Secondary School	Construction of a dormitory	4,000,000	The expenditure was not supported with architectural drawings, Bill of Quantities, quotations, contract agreement and certificates of completion. During project audit inspection, the dormitory was complete but not in use.
9	St. John's Secondary School	Completion of a laboratory block	1,500,000	The expenditure was not supported with architectural drawings, Bill of Quantities, quotations, contract agreement and certificates of completion. At the time of audit inspection of the project, the laboratory was complete. However, the management could not identify the sections on which the funds were spent.
	TOTAL		14,000,000	

Consequently, the propriety and value for money for Kshs.14,000,000 spent on the projects for the year ended 30 June 2017 could not be confirmed.

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 National Government Constituencies Development Fund - Kaloleni Constituency's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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 National Government Constituencies Development Fund - Kaloleni 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 National Government Constituencies Development Fund - Kaloleni 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 National Government Constituencies Development Fund - Kaloleni Constituency 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 National Government Constituencies Development Fund - Kaloleni Constituency 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 National Government Constituencies Development Fund - Kaloleni Constituency 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

13 July 2018