

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KATHIANI 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 Constituency Development Fund - Kathiani Constituency set out on pages 5 to 25, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, 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, 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 - Kathiani 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 the Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, 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. Presentation of the Financial Statements

The table of contents indicates that the notes to the financial statements are at page 26 instead of page 12. Consequently, the financial statements have not been presented in accordance with guidelines issued by the Public Sector Accounting Standards Board.

2. Bank Balance

The statement of assets reflects a bank balance of Kshs.3,645,033.65 as at 30 June 2017. However, the supporting bank reconciliation statement as at 30 June 2017 reflects cashbook balance of Kshs.3,647,288 resulting in unreconciled difference of Kshs.2,254.35 Further, the reconciliation statement includes unrepresented cheques totalling Kshs.2,819,010 out of which cheques amounting to Kshs.1,395,107 had gone stale as at 30 June 2017. In addition, the reconciliation statement reflects payments in bank statement not in cashbook totalling Kshs.256,889 out of which payments totalling Kshs. 51,465 relate to the financial years 2014/2015 and 2015/2016. It is not clear why

these payments have remained outstanding for that long. Consequently, the accuracy of bank balance of Kshs.3,645,033.65 as at 30 June 2017 cannot be confirmed.

3. Acquisition of Assets

The summary of fixed assets register at Annex 4 to the financial statements reflects total additions during the year of Kshs.499,000 being the movement between opening fixed assets balance of Kshs.4,750,224 and the closing balance of Kshs.5,249,224. However, the statement of receipts and payments reflects nil expenditure on acquisition of assets during the year under review. Further, the assets recorded in the register lacked identification numbers thereby exposing them to risk of loss. Consequently, the accuracy of the nil expenditure on acquisition of assets for the year ended 30 June 2017 cannot be confirmed.

4. Other Payments

The statement of receipts and payments reflects an amount of Kshs.1,500,000 in respect of other payments which according to Note 9 to the financial statements relate to the expenditure incurred on development of strategic plan. However, necessary procurement documents including the proposals, bid documents, evaluation committee minutes and a copy of the agreement between the Fund and provider of the service were not provided for audit verification. Consequently, the propriety of the expenditure totalling Kshs.1,500,000 on other payments cannot be confirmed.

5. Ineligible Expenditure

The statement of receipts and payments reflects expenditure of Kshs.46,954,723 under transfers to other government units which includes Kshs.1,000,000 transferred to health institutions. However, health is a devolved function falling under the County Government. The expenditure was incurred contrary to Section 24 (a) of the National Government Constituency Development Fund Act, 2015 and therefore ineligible. Consequently, the National Government Constituencies Development Fund Board and the Kathiani Constituency Development Fund Committee were in breach of the law.

6. Net Financial Position

The statement of assets as at 30 June 2017 reflects net liabilities instead of net financial position of Kshs.3,645,033.65 being the difference between the brought forward fund balance of Kshs.9,937,851.60 and the deficit for the year of Kshs.6,292,817.95. No explanation has been provided for this anomaly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Kathiani Constituency management 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 audit opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance to the audit of the financial statements for the current year. Except for the matters described in the Basis for Qualified Opinion and Other Matters sections, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Budget Performance

The Fund budgeted receipts for 2016/2017 amounted to Kshs.143,803,769.32 out of which an amount of Kshs.40,948,275.12 representing 28% of the budgeted receipts was not received. The expenditure budget for 2016/2017 was Kshs.143,803,769.32 while the actual expenditure amounted to Kshs.99,210,460.55 resulting in an under-expenditure of Kshs.44,593,308.77 or about 31%. The summary of budget performance is as detailed below:

Item	Budgeted Amount (Kshs)	Actual Amount (Kshs)	Difference (Kshs)	% of the Variance
Receipts				
Transfers from Board	143,803,769	102,855,494	40,948,275	28
Payments				
Compensation to Employees	2,768,000	1,309,100	1,458,900	53
Use of Goods and Services	9,042,373	6,063,818	2,978,555.60	33
Transfers to Other Government Entities	75,449,654	46,954,723	28,494,931	38
Other Grants and Transfers	54,543,741	43,382,819	11,160,922	20
Other Payment	2,000,000	1,500,000	500,000	25
	143,803,769	99,210,460	44,593,309	31

According to the footnotes to the summary statement of appropriation the variance between the budgeted and actual utilization of the funds resulted from outstanding disbursements that were still held by the Board. The delayed release of funds by the Board meant failure to deliver services to the constituents of Kathiani as initially planned.

2. Kathiani Toilets Project

During the year under review, the Fund incurred expenditure amounting to Kshs.22,050,000 on construction of twenty-nine units, six-door toilet blocks in various institutions including schools, chiefs' offices and police posts in the constituency. The bills

of quantities prepared by the office of the sub-county officer - Kathiani provided for provisional sum for contingencies of Kshs.30,000 per unit and screed at Kshs.4,400 per unit adding to a total of Kshs.34,400 per unit which translate to Kshs.997,600 for the 29 units.

However, a visit to Kathiani Police Post, one of the beneficiaries, did not confirm how the amount of Kshs.34,400 was utilized. Further, the toilet structures looked squeezed and the doors were depleted with some already missing and others destroyed by ants, just one year after the expenditure was incurred. There were also no certificates of completion of the toilets from the Public Works Department. In the circumstances, it is not possible to confirm whether the constituents got value for money with respect to the construction of the twenty-nine toilet blocks.

3. Lack of Staff Establishment and Scheme of Service

Throughout the year, the Fund had on its payroll five members of staff including an administrator, an assistant field officer, a secretary, a driver and a cleaner. However, there was no staff establishment and scheme of service for effective control of personnel functions including recruitment, key competences, job descriptions, placements, remuneration and promotions. As a result, adequacy and fairness of the personnel practices in place cannot be confirmed.

4. Delay in Completion of Works at Kauti Primary School

The Fund transferred Kshs.1,637,000 to the PMC in-charge of Kauti Primary for ground leveling works at the school. The amount was released through cheque numbers 005366 and 005367 for Kshs.837,000 and Kshs.800,000 respectively both of which were paid through the bank on 26 May 2017. A visit to the school during the month of April 2018, almost a year after the transfer was made revealed that the works remained approximately 50% complete. The bank statements for the project were also not provided for audit verification to confirm exactly how much balance out of the total disbursed was still available

5. Projects Implementation

The Fund's project implementation status report as at 30 June 2017 indicate that sixteen construction projects started between 2013/2014 and 2016/2017 with total allocation of Kshs.22,704,426 and disbursements of Kshs.20,904,426 were unutilized or under-utilized even though some had long been completed. Among them were three health facilities with disbursements of more than Kshs. 5,282,759 and two nursery schools for which an amount of Kshs. 1,287,201 had been disbursed. Others were security related projects including Kathiani police post which though in use had cracked floors and lacked a reporting desk. The details of these projects are as follows:

	Year	Name of Institution	Activity	Allocation (Kshs)	Disbursement (Kshs)	Status	Remarks
1	2013/2014	Kaani Dispensary	Construction of	2,241,379	2,241,379	complete	Not in use

			refurbicated House				
2	2013/2014	Ngoleni Dispensary	Construction of refurbicated House	2,241,379	2,241,379	complete	Note in use
3	2013/2014	Kyuluni Nursery	Construction of one classroom	587,201	387,201	At lintel level	Not in use
4	2013/2014	Miumbuni Sec. School	Construct laboratory	1,400,000	1,400,000	At lintel level	Not in use
	2014/2015	Miumbuni Sec. School Co	Construct laboratory	1,600,000	0	At lintel level	Not in use
5	2013/2014	Ngiini sec. School	Construct multipurpose hall	800,000	800,000	At slab level	Not in use
	2013/2015	Ngiini sec. School	Construct multipurpose hall	900,000	900,000	At lintel level	Not in use
6	2013/2014	Kituvu Dispensary	Completion of health facility	500,000	500,000	Complete	Not in use
	2015/2016	Kituvu Dispensary	Completion of health facility	300,000	300,000	complete	Not in use
7		Kathiani Police post Construction of police post		2,000,000	2,000,000	complete	Has floor cracks and no reporting desk
	2014/2015	Kathiani Police post	Construction of police post	1,000,000	1,000,000	complete	Has floor cracks and no reporting desk
	2014/2015	Kathiani Police post	Construction of police post	664,466	664,466	complete	In use has floor cracks and no reporting desk
8	2013/2014	Kauti Chiefs Camp	Construct chiefs offices	400,000	400,000	incomplete	Not in use

9	2013/2014	Kathalani Security post	Construct security post and toilets	1,200,000	1,200,000	complete	Not in use
	2014/2015	Kathalani Security post	Construct security post and toilets	1,570,000	1,570,000	Complete	Not in use- No toilets seen
10	2014/2015	Kituluni Chiefs office	Finishing Chief's office	300,000	300,000	Not started	Not in use
11	2014/2015	Kenol police post	Completion of police post	300,000	300,000	incomplete	Not in use
12	2015/2016	Katitu Nursery	Construction of classrooms	900,000	900,000	at foundation	Not in use
13	2015/2016	Kwa ngengi Sec. school	Construct Laboratory	900,000	900,000	roofed	not in use
14	2015/2016	St. Benedict Kituli Sec.	Construct laboratory	900,000	900,000	At slab level	not in use
15	2015/2016	Kinyau secondary	Multipurpose hall	1,000,000	1,000,000	at roof level	not in use
16	2015/2016	Nzaikoni AP Staff Houses	Construct 5 rooms for AP	1,000,000	1,000,000	Slabbed	not in use
				22,704,426	20,904,426		

In the circumstances, the constituents of Kathiani did not obtain value for money in respect of projects completed but not put to use.

Responsibility 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 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 ability 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 to cease 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 activities of the Fund 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

03 August 2018