

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KISAUNI 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 – Kisauni Constituency set out on pages 6 to 25, which comprise the statement of financial 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 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 – Kisauni 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 Constituency 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 Mater 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. Bank Balances

The statement of financial assets reflects bank balance of Kshs.2,464,820 as at 30 June 2017. However, included in unrepresented cheques of Kshs.1,927,135 in the bank reconciliation statement are seventy-one (71) cheques amounting to Kshs.1,702,135 which were stale and which had not been reversed in the cash book as at 30 June 2017. In addition, the bank reconciliation statement reflected bank charges of Kshs.31,745 as reconciling items. It was not clear why these were treated as reconciling items instead of writing them off as expenses in these financial statements. Consequently, the accuracy and completeness of bank balance of Kshs.2,464,820 could not be confirmed.

2. Transfers to Other Government Units

The statement of receipts and payments reflects a figure of Kshs.51,767,380 in respect of transfers to other government units as detailed in Note 6 to the financial statements for the year ended 30 June 2017. Audit verifications revealed the following anomalies:

2.1. Construction of Kashani Secondary School

Included in transfers to secondary schools figure of Kshs.48,046,835 is a disbursement of Kshs.38,039,835 for the construction of Kashani Secondary School. However, records availed for audit verification indicate that a firm awarded tender was not an incorporated company although according to the tender advert, the bidders were supposed to be incorporated firms. In addition, the tender advert also required the bidders to submit a 2% tender security. However, there was no evidence availed for audit to confirm that the awarded firm submitted this tender security. It was not clear why the bidder was not declared non-responsive in line with Section 79 (1) of the Public Procurement and Asset Disposal Act, 2015 which states that, "a tender is responsive if it conforms to all the eligibility and other mandatory requirements in the tender documents". Therefore, the bid was not supposed to have been allowed to proceed to tender evaluation stage.

Further, there was no evidence availed for audit to confirm that technical evaluation was undertaken after preliminary evaluation contrary to Section 80 (2) of the Public Procurement and Asset Disposal Act, 2015, which states that "*the evaluation and comparison shall be done using the procedures and criteria set out in the tender documents*". It was therefore not clear how the firm's technical ability was determined before award of tender.

As a result, the public may not have realized value for money on the expenditure of Kshs.38,039,835 for the year ended 30 June 2017 due to lack of competitiveness.

2.2. Project Supervision

Records availed for audit verifications indicate that during period under audit, the National Government Constituencies Development Fund – Kisauni Constituency contracted a firm to prepare bills of quantities, drawings and provide project management for construction contracts at a rate of 4% of the project cost. However, the procurement was done through request for quotations instead of using request for proposals in line with Section 116 (1 a & b) of the Public Procurement and Asset Disposal Act, 2015 which states that, "*An accounting officer of a procuring entity may use a request for proposals for a procurement if the procurement is of services or a combination of goods and services; and the services to be procured are advisory or otherwise of a predominately intellectual nature*". As a result, the management was in breach of the law.

Consequently, the propriety and regularity of transfers to other government entities figure of Kshs.51,767,380 for the year ended 30 June 2017 could not be confirmed.

2.3 Unremitted Taxes

The statement of receipts and payments for year ended 30 June 2017 reflects a figure of Kshs.51,767,380 in respect of transfers to other government units. The transfers to other government units relate to disbursements to undertake various construction projects. However, there was no evidence of Withholding taxes being deducted from contractors and remitted to Kenya Revenue Authority contrary to Section 42A (4-C) of the Tax Procedures Act, 2015 which provides that a person who is required to withhold tax commits an offence if the person fails to withhold the whole amount of the tax which should have been withheld or fails to remit the amount of the withheld tax to the Commissioner by the twentieth day of the month following that in which the deduction was made. 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.

Consequently, the management is in breach of the law and effects of non-compliance with the income tax laws could not be ascertained for the year ended 30 June 2017.

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

Other Matter

1.0 Budgetary Controls and Performance

According National Government Constituencies Development Fund Board's appropriation, Kisauni Constituency had a final budget of Kshs.114,406,163 where Kshs.102,995,826 being 90% of the total budget was allocated to projects (transfers to other government units of Kshs.52,586,197 and other grants and transfers of Kshs.50,409,629.

The overall budget for the year under review was Kshs.114,406,163 against total expenditure of Kshs.111,941,343 resulting to under absorption of Kshs.2,464,820 or 2% as summarized below:

Budget line	Final Budget	Expenditure	Unspent Balance	% of Utilization
Compensation of Employees	3,796,475	3,782,740	13,735	99.6%
Use of goods and services	7,613,861	7,577,101	36,760	99.5%
Transfers to Other Government Units	52,586,197	51,767,380	818,817	98.4%
Other grants and transfers	50,409,629	48,814,121	1,595,508	96.8%
Total	114,406,162	111,941,342	2,464,820	98%

The fund had a total under-expenditure of Kshs.2,464,820 representing 2% of the budget. This implies that public funds were lying idle at the expense of other deserving areas. This may affect delivery of goods and services to the residents of Kisauni Constituency contrary to values and principles of public service as provided for under Article 232 (1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

2.0 Project Implementation

According to the project implementation status report as at 30 June 2017, the following eleven (11) projects with a total budget of Kshs.9,374,155 were not implemented during the period under review:

No.	Name of project	Project Activity	Project Allocation (Kshs.)	Expenditure as at 30/06/2017 (Kshs.)	Implementation status as at 30/6/2017
1	Social security	To cater for medical insurance for the vulnerable members of the community in the constituency	8,189,655	0	0%
2	Kiembeni Primary School	Purchase of 25 pcs 3 seater pupils desks	92,500	0	0%

No.	Name of project	Project Activity	Project Allocation (Kshs.)	Expenditure as at 30/06/2017 (Kshs.)	Implementation status as at 30/6/2017
3	Digirikani Primary School	Purchase of 25 pcs 3 seater pupils desks	92,500	0	0%
4	Majaoini Primary School	Purchase of 25 pcs 3 seater pupils desks	92,500	0	0%
5	Baraka Primary School	Purchase of 45 pcs 3 seater pupils desks	92,500	0	0%
6	Bedzimba Primary School	Purchase of 45 pcs 3 seater pupils desks	166,500	0	0%
7	Shimo La Tewa Primary School	Purchase of 45 pcs 3 seater pupils desks	92,500	0	0%
8	Concordia Primary School	Purchase of 45 pcs 3 seater pupils desks	92,500	0	0%
9	Kisauni Baptist Primary School	Purchase of 45 pcs 3 seater pupils desks	92,500	0	0%
10	Marimani Secondary School	Purchase of 25 pcs locker and chair	142,500	0	0%
11	Kashani Secondary School	Purchase of 25 pcs locker and chair	228,000	0	0%
	Total		9,374,155	0	

It was not clearly explained why the projects were not implemented although the National Government Constituencies Development Fund – Kisauni Constituency received full amount due from National Government Constituencies Development Funds Board as per the approved budget.

Non-implementation of development projects affects goods and service delivery to the public and the intended purpose of the projects may not to be realized.

3.0 Project Inspection

Audit inspection of projects during the month of April 2018 indicated the following state of affairs of the following specific projects:-

3.1 Kashani Secondary School

- i. The contractor was not on site although there was no evidence that the project had been officially handed over;
- ii. Students had not enrolled in the school and information available indicates that the delay was due to process of registering the school with the Ministry of Education;
- iii. There were deep gulleys formed behind the building implying storm waters were not being properly managed;
- iv. The sockpit was flooded with rain water despite it not being used thus posing a health risk to the user;
- v. Electricity had not been connected to the building and records availed for audit revealed that the power application had been paid;
- vi. Comparison of the items as bills of quantities and actual work done revealed the following variances:

No.	BoQ No.	Item	Specifications as per BoQ	Audit Verification
1	4(Page 6)	Panel door	Hardwood doors	Soft wood doors
2	5(page 8)	1500x1500 mm Windows	Aluminum Sliding windows	Ordinary grill windows
3	Part B	1500x800 mm Windows	Aluminum Sliding windows	Ordinary grill windows
4	Part C	600x800 mm Windows	Aluminum Sliding windows	Ordinary grill windows
5	Part E	1,500 x 1,500 Grills	Diamond patterned Y16	No grills fixed
6	No. 7 (Page 10) – Part D	Interior Painting and decoration of	1,237 ltrs Oil paint	Half of the wall painted with non-oil paint
7	Part E	Exterior Painting and decoration of	470 ltrs Oil paint	Half of the wall painted with non-oil paint

However, there was no evidence presented to support change of the above project specifications. In the circumstances, the public may not have realized value for money from the above change of specification.

3.2 Tree Planting Project

Included in other grants and transfers of Kshs.48,814,121 for the year ended 30 June 2017 as detailed in Note 7 to the financial statements is a figure of Kshs.1,637,931 in respect of environment. Records availed for audit verification indicate that during the financial year National Government Constituency Development Fund Committee - Kisauni Constituency spent Kshs.1,637,931 on tree planting in various schools. However, during the project verification, it was observed that most of the casuarina trees planted had failed although the management has attributed the situation to unreliable rains in the area. Therefore, the public may not have realized value for money from the expenditure of Kshs.1,637,931 in respect of environment projects for the year ended 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 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, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting

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 – Kisauni 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 the National Government Constituencies Development Fund – Kisauni 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 the National Government Constituencies Development Fund – Kisauni Constituency’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 National Government Constituencies Development Fund – Kisauni Constituency’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

06 July 2018