

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund- Kitui Rural Constituency set out on pages 7 to 24, which comprise 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 an 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, because of the significance of the matters discussed in the Basis for Adverse Opinion Section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund-Kitui Rural Constituency as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and do not comply with the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1.0 Accuracy, Completeness and Presentation of the Financial Statements

1.1 Accuracy and Completeness of the Financial Statements.

The financial statements for the year under review reflected a balance of Kshs.86,156,609 on six expenditure items. However, the respective supporting schedules reflected a balance of Kshs.78,736,607 on the six items resulting into an unexplained and unreconciled variance of Kshs.7,420,002 as follows;

Item	Balance as per Financial Statements (Kshs.)	Balance as per Supporting Documents (Kshs.)	Variance (Kshs.)
Transfer to primary schools	41,450,000	38,050,000	3,400,000
Transfers to secondary schools	2,000,000	3,000,000	(1,000,000)
Bursary secondary	17,021,425	13,188,722	3,832,703

Bursary tertiary	17,021,425	9,360,000	7,661,425
Mocks & CAT	1,063,759	8,137,885	(7,074,126)
Security	7,600,000	7,000,000	600,000
TOTAL	86,156,609	78,738,607	7,420,002

Further, the combined statement of appropriation; recurrent and development was stated as being for the financial year ending 30 June 2016 while the year under review is the financial year ending 30 June 2017.

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

1.2 Presentation of the Financial Statements

The Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS) requires a progress on the follow up of previous year auditor's recommendations be included as part of the annexures in the financial statements. However, the financial statements for the year under review did not include the progress on follow up of auditor recommendations.

In the circumstances, the financial statements for the year ended 30 June 2017 did not comply with IPSAS (Cash Basis) as prescribed by the Public Sector Accounting Standards Board and the National Treasury.

2.0 Cash and Cash Equivalents

The financial statements for the year under review reflects a cash and cash equivalents balance of Kshs.15,114,629 as at 30 June 2017. However, the bank reconciliation statement for the Month of June 2017 included unrepresented cheques totaling to Kshs.9,694,391 which included stale cheques totaling to Kshs.1,297,016 which had not been replaced or written back to the cash book as at 30 June 2017.

Further, the bank reconciliation statement for the month of June 2017 included cheque No.003600 of Kshs.970,000 being payment in the bank but not recorded in the cash book. However, although documents made available showed that the payment was made without proper authority, the funds had neither been recovered nor had the suspects been taken to court as at 30 June 2017.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.15,114,629 as at 30 June 2017 could not be confirmed.

3.0 Irregular Expenditure

3.1 Unsupported Expenditure

During the financial year under review, the Fund spent a total of Kshs.19,489,389 on three (3) components as follows;

Component	Amount (Kshs.)
I. Use of Good and Service	9,713,573
II. Mocks and CATs	8,137,885
III. Sports	<u>1,637,931</u>
Total	<u>19,489,389</u>

However, no documentary evidence in support of the expenditure incurred in each of the components was made available for audit review.

In the circumstances, the accountability, propriety and value for money of the Kshs.19,489,389 expenditure as at 30 June 2017 could not be ascertained.

3.2 Doubtful Expenditure on Sinking of Bore Hole

During the financial year under review, the Fund transferred Kshs.2,000,000 to Kwa Kilui Secondary School for sinking and equipping one bore hole. However, the list of registered contractors was not made available to show that the contracted firm was among those in the register.

Further, even though a payment of Kshs.970,200 was made to the contractor on 14 February 2018, no inspection and acceptance report was carried out to validate the work done for the purpose of the payment as required by Section 48 (3)(b) of the Public Procurement and Assets Disposal Act, 2015.

Consequently, the accountability, propriety and value for money of the Kshs.2,000,000 expenditure on the bore hole as at 30 June 2017 could not be ascertained.

4.0 Inflated Dust Bin Cost

During the financial year under review, the Fund budgeted and transferred Funds to environmental program Project Management Committee (PMC) to procure two different types of dust bins at a total cost of Kshs.1,091,031 for sixteen Secondary Schools. It was noted that six (6) dust bins were supplied at a cost of Kshs.108,850 each for six Secondary School, while another ten (10) set of dust bins of same type were supplied to 10 Secondary Schools at a cost of Kshs.43,793 each. However, a market survey revealed that the same type of dust bin could have been supplied at a cost of Kshs.5,550 per dust bin as per the prevailing market price. No explanation was given for the variance of the cost of the dust bin though they were of the same type and further it was not explained why the cost of a dust bin was way above the prevailing market price at almost 2,000%.

In addition, no procurement documents on the dust bins were made available for audit verification, hence it was not possible to confirm whether procurement laws and regulation were followed and whether supply of dust bins was sourced competitively.

In the circumstances, the expenditure of Kshs.1,091,031 as at 30 June 2017 on dust bins is void and not a proper charge on public funds.

5.0 Irregular Projects Payments

5.1 None Existent Projects

During the financial year under review, the Fund disbursed Kshs.6,583,860 to undertake eleven (11) projects as follows;

Project	Amount (Kshs.)	Purpose
Kanyonyo AP Line	300,000	Walling and roofing of a 3 roomed AP's staff unit
Kanyonyo Police Station	1,000,000	Construction of a police office block with two (2) cells and an armory room
Kanyangi Police Post	500,000	Completion of police office block-shuttering and plastering
Kanyangi DO's	1,000,000	Construction of one bedroom house for the

House		DO
Kwa Vonza Police Station	500,000	Construction of 2 rooms' staff houses for the police officers.
Mbitini Chief's Office	300,000	Construction of 2 rooms' administration police staff houses.
Lower yatta AP offices	500,000	Construction of 4 door pit latrine & urinal
Kyusyani police post	500,000	Construction of 4 door pit latrine & urinal
Kwa Vonza Chief's office	400,000	Renovation of kwa vonza chiefs' office
Kyusyani mandago road	783,860	Kyusyani mandago road
Maangani Primary School	400,000	Reroofing of 4 Classrooms
Total	6,583,860	

However, a physical verification done on 27 April 2018 revealed that none of the projects were existing. Further, the projects status reports, projects' bank statement and expenditure returns were not made available for audit verification.

As a result, the Kshs.6,583,860 expenditure as at 30 June 2017 is irregular and the responsible officers be held accountable.

5.2 Stalled Projects

During the financial year under review, the Fund released Kshs.800,000 and Kshs.300,000 all totaling to Kshs.1,100,000 to Kanyangi DO's Project Management Committee (PMC) and Kalulini AP Line PMC for construction of office block and 3 rooms for the AP line staff houses respectively. However, physical verification carried on 27 April 2018 revealed that the two projects were not completed and were stalled.

Consequently, the value for money and propriety of Kshs.1,100,000 expenditure as at 30 June 2017 could not be confirmed.

6.0 Tree Planting

During the financial year under audit review, the Fund budgeted and transferred Kshs.2,800,000 to environmental program PMC towards tree planting in twenty three (23) Schools. However, physical verification carried out on 27 April 2018 on a sampled thirteen (13) Schools revealed that no such projects were undertaken in the thirteen Schools.

Further, no procurement documents on tree planting were availed for audit verification. It was, therefore, not possible to confirm whether procurement laws and regulation were followed and whether supply of tree seedlings was sourced competitively.

In the circumstances, the accountability, propriety and value for money of the Kshs.2,800,000 expenditure as at 30 June 2017 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund – Kitui Rural 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 adverse 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 effect of the matters discussed in the Basis for Adverse Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget and Budgetary Controls

During the financial year under review, the Fund approved a budget of Kshs.123,819,641 comprised of Kshs.81,896,552 for the year under review and Kshs.41,923,089 brought forward from the previous year and the same was received in full.

However, out of the total budget of Kshs.123,819,641 only Kshs.108,705,011 (88%) was utilized to Fund projects in various sectors within the Constituency while Kshs.15,114,629 budgeted to be spent during the financial year ended 30 June 2017 was not spent as follows;

Receipts	Original Budget (Kshs.)	Adjustments (Kshs.)	Final Budget (Kshs.)	Actual on Comparable Basis (Kshs.)	Variance (Kshs.)	Performance (%)
Transfers from CDF Board	81,896,552	41,923,089	123,819,641	123,819,641	0	100
Total Receipts	81,896,552	41,923,089	123,819,641	123,819,641	0	100
Compensation of Employees	1,604,800		1,604,800	1,464,040	140,760	91
Use of goods and services	5,765,890	4,500,000	10,260,890	9,713,573	547,317	95
Transfers to Other Government Units	40,281,034	4,000,000	44,281,034	43,450,000	831,034	98
Other grants and transfers	32,249,827	32,823,089	65,072,916	53,562,399	11,510,518	82
Acquisition of Assets	2,000,000	600,000	2,600,000	515,000	2,085,000	20
TOTALS	81,896,552	41,923,089	123,819,641	108,705,011	15,114,629	88

In the circumstances, the residents of Kitui Rural Constituency did not obtain promised and expected services equivalent to the unspent funds amounting to Kshs.15,114,629 as at 30 June 2017.

2.0 Project Implementation Status

The Kshs.81,896,552 approved budget for the year under review was apportioned among various sectors within the Constituency namely primary schools, secondary schools, health institutions, sports, roads, security, bursary, emergency projects and administration and committee expenses.

However, respective analysis of the project implementation status was not made available for audit purposes. It was, therefore, not possible to establish the number of projects either completed, ongoing, not started and stalled if any per each sector together with the total amounts allocated and disbursed for each project.

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 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 liquidated the fund 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

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 of Kenya. 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's ability to continue as a going concern. 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 continue as a going concern.
- 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 of the Fund's activities 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

4 July 2018