

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LAFEY 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 - Lafey Constituency set out on pages 5 to 35, 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 - Lafey 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of assets reflects a bank balance of Kshs.16,434,452 as at 30 June 2017. The balance was supported by certificate of bank balances, cash book, bank statement and bank reconciliation statement. However, a review of the bank reconciliation statement for the month of June 2017 revealed that stale cheques amounting to Kshs.170,000 shown as payments in Cash Book not yet recorded in the Bank Statement (Unrepresented Cheques). Some of the cheques which were paid to various learning institutions being payment of bursaries to needy students and Kenya Revenue Authority were reflected as unrepresented cheques. No explanation was given for not updating the cash book.

In the Circumstances, the accuracy, completeness and validity of the bank balance of Kshs.16,434,452 as at 30 June 2017 could not be ascertained.

2. Award of Contracts for Primary School Projects

During the financial year 2016/2017, the National Government Constituencies Development Fund – Lafey paid Kshs.9,700,000 to various Project Management Committees as grants for construction of class room, fencing works and construction of a kitchen and a store in various primary schools within the Constituency. Examination of

payment vouchers, supporting documents and other tender documents relating to the projects revealed that the tender notices and tender documents submitted by the tenderers did not set the criteria to be used for the evaluation of tenders hence there was no proper guideline on the specific requirements needed for the tenders. Further, no tender evaluation committee was appointed for the projects and therefore the tenders were not evaluated as required by Section 80 of the Public procurement and Assets Disposal Act, 2015. In addition, the payments were not supported with tender opening register, certificate of practical completion and contract agreement signed between the PMC and the contractors.

In the circumstances, the propriety of the Kshs.9,700,000 expenditure could not be ascertained as at 30 June 2017.

3. Construction of Laboratory at Gari Secondary School

During the year under review, the National Government Constituencies Development Fund – Lafey disbursed an amount of Kshs.9,700,000 to Gari Secondary School Project Management Committee for the construction of a laboratory. The project was procured through request for quotation against the threshold matrix in the Public Procurement and Disposal Regulation 2006. Further, there was no contract agreement created and signed between the Project Management Committees (PMCs) and the contractors as required by Section 135 (1) of the Public Procurement and Asset Disposal Act, 2015. The bill of quantities were also not signed by the tender committee on one or more pages as required by Section 78 (9) of the Public Procurement and Asset Disposal Act, 2015.

The CDF disbursed the total contract sum to the project management committee on 26 February 2017 vide Payment Voucher No. 311. Since the payment was not supported with engineer's certificate of completion or inspection and acceptance Committee report, audit could not ascertain whether the project was implemented in accordance with correct specifications. It was also not clear whether the 10% retention was deducted from the contractor as required by the terms of contract.

Consequently, the propriety and validity of the expenditure of Kshs.9,700,000 as at 30 June 2017 could not be confirmed

4. Unaccounted for Bursary Expenses

In the year under review, the NGCDF Committee for Lafey Constituency disbursed bursaries amounting to Kshs.27,770,000 to various tertiary institutions and secondary schools for the benefit of needy students. However, examination of payment vouchers and its supporting documents revealed that an amount of Kshs.4,350,000 disbursed to various institutions has not been acknowledged through official receipts or acknowledgement letters by the beneficiary institutions. Further, cheque dispatch register was not opened to record the cheques that were issued out, the level of studies for the beneficiaries not indicated in the supporting payment schedules and minutes of the vetting committee were neither attached to the payment vouchers nor availed for audit review hence not possible to ascertain the criteria used in vetting the beneficiaries.

As a result, the propriety of the expenditure of Kshs.4,350,000 could not be ascertained.

5. Award of Contracts for Security Projects

During the financial year 2016/2017, the National Government Constituencies Development Fund – Lafey disbursed an amount of Kshs.9,600,000 to various PMCs as grants for construction of construction of staff houses at Damasa and Fino Administration Police Camps. The following anomalies were noted;

- (i) The contract sum of the construction of staff housing units at Damasa AP Camp was Kshs.8,000,000 which the Project Management Committees ought to have procured through national open tender. It was however discovered the PMC used request for quotation to procure the project. This is against the threshold matrix in the Public Procurement and Disposal Regulations 2006 which sets minimum expenditure of Kshs.3,000,00 for open tender for class C procuring entities.
- (ii) No contract agreement created and signed by the Project Management Committees and the contractors as required by section 135 (1) of the Public Procurement and Asset Disposal Act, 2015.
- (iii) The CDF made direct payment to the contractor, Ms Gamas Construction & Engineering Co. Ltd on 3/2/2017 vide payment Vouchers Number 329. This is contrary to section 36 (1) of the National Government Constituency Development Fund Act, 2015 which give the Project Management Committees the mandate to implement the projects. It was also not clear whether the 10% retention was deducted from the contractor as required by the terms of contract.
- (iv) The Bill of quantities submitted by the contractors were not signed by the tender committee on one or more pages as required by section 78 (9) of the public procurement and Asset Disposal Act, 2015.
- (v) Quotation for the works of construction of two number housing units at Fino Ap Camp was not availed for audit review, evaluation minutes availed for audit review was not confirmed by the chairman of the project management committee.

In view of the foregoing, it has not been possible to confirm the propriety of the expenditure amounting to Kshs.9,600,000 as at 30 June 2017.

6. Unaccounted for Administration/Monitoring and Evaluation

During the year under review, the National Government Constituency Development Fund - Lafey spent an on administration/ monitoring and evaluation. The expenditure was however not supported with temporary work tickets and copies of vehicles hired during the monitoring and evaluation exercise. It was therefore not possible to ascertain whether the vehicles were actually hired for the exercise. It was also observed that payments of sitting allowances were made to the National Government Constituency Development Fund Committee. The payments were however not supported with signed attendance registers and the minutes of the committee meetings and their deliberations to confirm occurrence of the committee meetings.

Under the circumstances, the expenditure of Kshs.730,000 was not supported and thus accounted for.

7. Unsupported CDF Offices Expenditure

Note 9 to the financial statements and the statement of receipts and payments indicates an expenditure of Kshs.7,698,310 on CDF Offices. However, no details / supporting documents were provided for audit scrutiny. It was therefore not possible to ascertain whether the funds disbursed to the project management committee accounts were properly managed.

In consequence, the propriety and validity of the expenditure of Kshs.7,698,310 could not be confirmed as at 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 - Lafey 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 and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

Budget Performance Analysis

Review of budget appropriation statement revealed that during the year under review, the NGCDF Lafey Constituency Development Fund had an approved budget amounting of Kshs.215,018,299. Out of the Kshs.215,018,299 budgeted for the financial year under review, an amount of Kshs.8,690,086 was unspent balance from the financial year 2015/2016. Budget utilization on receipts and expenditure are as follows:

| Item | Budget (Kshs) | Actual (Kshs) | Variance (Kshs) | % Utilization |
|-------------|--------------------------|--------------------------|----------------------------|----------------------|
| Receipts | 215,018,299 | 184,070,023 | 30,948,276 | 86% |
| Expenditure | 215,018,299 | 167,635,570 | 47,382,729 | 78% |

The above analysis reflects actual receipts of Kshs.184,070,023 against budgeted amount of Kshs.215,018,299 resulting in underfunding of Kshs.30,948,276 or 14% of the funds budgeted for the financial year. Further, the National Government Constituency Development Fund - Lafey spent an amount of Kshs.167,635,570 against a budgeted

amount of Kshs.215,018,299 resulting in under expenditure of Kshs.47,382,729.09 or 22% of the approved budget as detailed below:

| Item | Approved Budget (Kshs) | Actual Expenditure (Kshs) | Under Expenditure (Kshs) | % Difference |
|------------------------------------|--------------------------|---------------------------|--------------------------|--------------|
| Compensation of employees | Planned and budgeted for | 2,770,560 | 1,733,760 | 38% |
| Use of goods and services | 10,710,573 | 6,985,200 | 3,725,373 | 35% |
| Transfer to other Government units | 68,617,759 | 50,360,000 | 18,257,759 | 27% |
| Other grants and transfers | 122,607,351 | 99,421,500 | 23,185,850 | 19% |
| Acquisition of assets | 800,050 | 400,000 | 400,050 | 50% |
| Other payments | 7,778,246 | 7,698,310 | 79,936 | 1% |
| TOTAL | 215,018,299 | 167,635,570 | 47,382,728 | 22% |

No explanation was given as to why the funds were not fully utilized as budgeted for. The underutilization of the funds may deny the constituents the planned and budgeted for services.

2.0 Appointment of the Constituency Oversight Committee

During the period under review, it was observed that constituency oversight committee was not appointed as required by Section 53(1) of the National Government Constituencies Development Fund Act, 2015. No proper explanation was given for not appointing the committee.

Consequently, it was not clear how the Fund operated without oversight committee.

3.0 Non-maintenance of Financial and Accounting Records for The Project Management Committee

It is a requirement as per section 15(10)(a) and 10(b) of National Government Constituency Development Fund Regulations, 2016 to maintain records of Bank accounts opened by project management committees and to prepare and table quarterly report. Contrary to the above regulations it was noted that records of bank accounts held by the various project management committees such as bank statements and cashbooks were not maintained by the National Government Constituencies Development Fund Lafey office. There was no bank reconciliation statement for the Project Management Committee accounts.

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 Financial Reporting Standards/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/ sustain 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

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'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 Fund'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

23 August 2018