

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Lamu West Constituency set out on pages 6 to 24, which comprise the statement of 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Presentation of the Financial Statements

The financial statements presented for audit verification did not include annexures for fixed asset register and bank balances in project management committees as at 30 June 2017 in line with the Public Sector Accounting Standards Board reporting guidelines.

As a result, the financial statements presented do not comply with the guidelines prescribed by the Public Sector Accounting Standards Board.

2. Unsupported Expenditure

As previously reported, included in the statement of receipts and payments for the year ended 30 June 2017 are payments for 2015-2016 totalling Kshs.10,335,549 and whose support documents were not availed for audit as detailed below:

No.	Component (2015-2016 Comparative)	Note to the financial statement (2015-2016 Comparative) (Kshs.)	Amount Unsupported (2015-2016 Comparative) (Kshs.)
1	Transfer to secondary	6	6,000,000

	schools		
2	Office and general supplies	5	415,846
3	Purchase of computers, printers and other ICT equipment	8	265,000
4	Compensation to employees	4	3,654,703
	Total		10,335,549

In the circumstances, the accuracy and completeness of payments totaling Kshs.10,335,549 in the comparative figures for the year ended 30 June 2016 could not be confirmed.

3. Bank Balances

The statement of assets reflects bank balance of Kshs.2,708,428 as at 30 June 2017. However, the management failed to avail subsequent bank statements to confirm when the unrepresented cheques amounting to Kshs.7,700,526 were subsequently cleared by the bank account or when they were reversed in the cash book.

Consequently, the accuracy and completeness of bank balance of Kshs.2,708,428 as at 30 June 2017 could not be confirmed.

4. Transfer to Other Government Units

The statement of receipts and payments reflects a figure of Kshs.18,698,000 for the year ended 30 June 2017 in respect of transfer to other government units as detailed in note 6 to the financial statements. Included in the transfer to other government units of Kshs.18,698,000 is disbursements to eight (8) projects totaling Kshs.15,749,000 as summarized below:

No.	Entity	Project Activity	Amount (Kshs.)
1	Mpeketoni Boys Secondary School	Purchase of 44KVA back-up electrical generator	1,400,000
2	Lamu Girls Secondary School	Purchase of 44KVA back-up electrical generator	1,400,000
3	Wiyoni Secondary School	Completion of 2 classrooms	3,000,000
4	Education School Furniture PMC	Purchase of desks	1,949,000
5	Hindi Primary School	Re-roofing of 5 no. classrooms	2,000,000
6	Umoja Primary	Renovation of 9 no. classrooms	1,000,000

7	Ndeu Primary School	Re-roofing of classrooms	2,500,000
8	Kiongwe Primary	Re-roofing of 11 no. classrooms	2,500,000
	Total		15,749,000

However, the project files availed lacked key documents including project expenditure returns, projects' bank account statements, tender documents and tender minutes and bills of quantities. This is contrary to Section 38 of National Government Constituencies Development Fund Act, 2015 which provides that the officer of the Board in every constituency shall compile and maintain a record showing all receipts, disbursements and actual expenditures on a monthly basis in respect of every project and sub-project under the Act. The management was therefore in breach of the law.

In the circumstances, the propriety, completeness and regularity of transfer to other government units figure of Kshs.15,749,000 for the year ended 30 June 2017 could not be confirmed.

5. Use of Goods and Services

The statement of receipts and payments reflects a figure of Kshs.10,891,451 for the year ended 30 June 2017 in respect of use of goods and services as detailed in note 5 to the financial statement. However, audit verifications revealed the following anomalies:

5.1. Other Committee Expenses

Included in use of goods and services figure of Kshs.10,891,451 for the year ended 30 June 2017 is other committee expenses figure of Kshs.3,433,500 which includes an amount of Kshs.1,826,580 on project monitoring and evaluation. However, audit verification revealed that the expenditure of Kshs.1,826,580 was not supported with minutes of meetings in line with Section 5 (1) of the National Government Constituencies Development Fund, Act, 2015. The validity of the payments was therefore doubtful.

5.2. Fuel, Oil, and Lubricants

Included in use of goods and services figure of Kshs.10,891,451 for the year ended 30 June 2017 is fuel, oil and lubricants amount of Kshs.1,308,312. However, audit verification revealed that the payments of Kshs.1,308,312 for fuel, oil and lubricants were neither supported with counter receipt voucher (S13) nor fuel register and nor work tickets. This was contrary to Section 159 of the Public Procurement and Asset Disposal Act, 2015. The management was therefore in breach of the law. Consequently, the propriety and regularity of fuel, oil and lubricants balance of Kshs.1,308,312 for the year ended 30 June 2017 cannot be confirmed.

6. Other Grants and Transfers

6.1. Training of Coxswains

Included in other grants and transfers of Kshs.48,834,922 for the year ended 30 June 2017 as detailed in note 7 to the financial statements is bursary to tertiary institutions of Kshs.15,767,600. This includes a payment of Kshs.3,000,000 to a Kisumu-based private college for training of forty (40) coxswains in Lamu. However, there was no evidence of how the college was identified and selected in line with Section 91 (1) of the Public Procurement and Asset Disposal Act, 2015. In addition, there was no evidence of how the beneficiaries were selected neither was there documentary evidence that the training actually took place.

6.2. Driving Course

Included in other grants and transfers of Kshs.48,834,922 for the year ended 30 June 2017 as detailed in Note 7 to the financial statements is bursary to tertiary institutions of Kshs.15,767,600. This includes a payment of Kshs.5,536,600 to a driving school to train motor vehicle drivers and motor cyclists. However, there was no evidence of how the driving school was identified and selected in line with Section 91 (1) of the Public Procurement and Asset Disposal Act, 2015.

In addition, there was no evidence of how the beneficiaries were selected neither was there documentary evidence that the training actually took place. The management was therefore in breach of the law.

6.3. Security

Included in other grants and transfers of Kshs.48,834,922 for the year ended 30 June 2017 is security expenditure of Kshs.6,000,000. The security expenditure relates to the construction of administration office at Muharani Administration Police Post. However, there was no evidence availed for audit verifications on how contractor was identified and selected contrary to Section 91 (1) of Public Procurement and Asset Disposal Act, 2015. As a result, the management was in breach of the law.

6.4. Emergency Projects

According to Note 7 to the financial statements, other grants and transfers balance of Kshs.48,834,922 include Kshs.4,618,160 for emergency projects. The emergency projects figure of Kshs.4,618,160 include expenditure of Kshs.2,200,000, Kshs.1,918,080 and Kshs.500,000 for supply of food stuffs for distribution to various schools, supply of water to draught affected areas and motor vehicle fuel respectively. However, audit verifications revealed that the expenditure was approved by the National Government Constituency Development Fund Committee after the delivery dates as detailed below:

No.	Payment Voucher No.	Item	Amount (Kshs.)	Date of Approval	Date Delivery
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1	873	Supply of food	2,200,000	21/11/2016	20/11/2016
2	1387	Supply of water	1,918,080	20/02/2017	25/11/2016 to 31/12/2016
3	876	Supply of fuel	500,000	21/11/2016	12/02/2016
	Total		4,618,080		

This was contrary to Section 5 (1) of the National Government Constituencies Development Fund, Act, 2015. Therefore, the payment may have been irregular.

In the circumstances, the propriety, accuracy, and regularity of other grants and transfers of Kshs.48,834,922 for the year ended 30 June 2017 could not be confirmed.

7. Acquisition of Assets

As reported in the year 2015-2016, the statement of receipts and payments reflects acquisition of assets balance of Kshs.10,494,170 for the year ended 30 June 2016. The balance of Kshs.10,494,170 include purchase of motor vehicle and motor cycle figure of Kshs.8,979,170. However, the project file containing the project bank statement and procurement documents were not availed for audit verifications. As a result, it was not possible to confirm how the supplier was identified and the actual amount paid for the vehicle. In addition, the log books for the motor vehicle and motor cycle acquired during the financial year 2015-2016 at a total cost of Kshs.8,979,170 were not availed for audit verifications. The ownership of the assets could not be confirmed.

Further, a summary of asset register was not annexed to the financial statements as required per the Public Accounting Standards Board reporting template.

Consequently, the propriety, accuracy, completeness and ownership of comparative acquisition of assets balance of Kshs.8,979,170 for the year ended 30 June 2016 could not be confirmed.

8. Unremitted Taxes

The statement of receipts and payments for year ended 30 June 2017 reflects transfers to other government units of Kshs.18,698,000 and other grants and transfers of Kshs.48,834,922. Included in these transfers are a total of Kshs.24,698,000 being 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. 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.

9. Budgetary Controls and Performance

The National Government Constituency Development Fund (NG-CDF) – Lamu West Constituency received an allocation of Kshs.66,914,149 being 82% of the original budget for the financial year under review.

The Fund had actual expenditure of Kshs.82,882,657 resulting to under absorption of Kshs.33,756,703 or 29 % as summarized below:

Budget line	Final Budget Kshs	Expenditure Kshs	Under-absorption (Kshs.)	Under-absorption %
Compensation of Employees	4,464,549	4,458,284	6,265	1%
Use of Goods and Services	11,140,896	10,891,451	249,445	2%
Transfers to Other Gov't Entities	47,126,589	18,698,000	28,428,589	60%
Other Grants and Transfers	53,907,327	48,834,922	5,072,405	9%
Total	116,639,361	82,882,657	33,756,704	29%

The following were observations from the above analysis:

- i. The fund had a total under-expenditure of Kshs.33,756,704 representing 29% of the budget. This implies that public funds were lying idle at the expense of other deserving areas. The underutilization of the funds may have impacted negatively on the delivery of goods and services to the citizens of Lamu West or may be an indication of over-budgeting in the NG-CDF hence there is a need to re-evaluate the budgeting process to focus on more priority areas as guided by Public Participation in budget making.
- ii. The NG-CDF underspent by 60% on transfers to other government units which represents project funds not disbursed for implementation. This may affect public service delivery to the residents of Lamu West Constituency which 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.

10. Project Implementation Status

According to the project implementation status report as at 30 June 2017, the following thirteen (13) projects with a total budget of Kshs.25,691,379 were not implemented during the period under review:

No.	Project Name	Project Activity	Project Allocation (Kshs.)	Status
1	Wiyoni Secondary School	construction of 2 door modern toilets to completion	600,000	0%
2	Kihongwe Primary School	construction of 2 door modern toilets to completion	600,000	0%
3	Maisha Masha Primary School	construction of two classrooms	2,800,000	0%
4	Juhudi Primary School	construction of two classrooms	2,800,000	0%
5	Salama Primary School	construction of two classrooms	2,800,000	0%
6	Majembeni Secondary School	construction to completion of two classrooms	2,800,000	0%
7	Strategic Plan	preparation of strategic plan 2016-2021	1,200,000	0%
8	Sikomani Primary School	renovation of computer lab	150,000	0%
9	Hindi Primary School	renovation of 5 classrooms, doors and windows fittings	700,000	0%
10	Witu Mjini Secondary School	wiring of classrooms and electricity connection	350,000	0%
11	Moa Secondary School	fencing of chain-link concrete poles, fence and gate of the whole school compound	1,500,000	0%
12	Bahari Secondary School	construction of administration block to completion	7,000,000	0%
13	Lamu West Secondary schools fire extinguishers project	purchase of fire extinguishers for secondary schools	2,391,379	0%
	Total		25,691,379	

The management has attributed non-implementation to delays by the National Government Constituencies Development Fund Board to disburse funds for the projects. 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.

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 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

My responsibility is to conduct an audit of the Fund's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of National Government Constituencies Development Fund – Lamu West 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 July 2018