

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

REPORT ON FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Likoni Constituency set out on pages 5 to 34, 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 - Likoni 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 Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualification and Other Matter sections of my report, I confirm that, nothing 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 Balance

1.1 Stale Cheques

The statement of financial assets as at 30 June 2017 reflects bank balance of Kshs.4,410,274 which includes stale cheques amounting to Kshs.81,480 which had not been reversed in the cash book as at year end.

1.2 Payments in Bank Statements not in Cash Book

The statement of financial assets as at 30 June 2017 reflects bank balance of Kshs.4,410,274. The bank reconciliation statement as at 30 June 2017 reflects bank charges amounting to Kshs.13,477 which ought to have been recorded in cash book and expensed in the statement of receipts and payments for the year then ended.

Further, the bank charges figure reflected in bank reconciliation statement varies from Kshs.15,975 shown in Note 5 to the financial statements by Kshs.2,498 and which has not been explained nor reconciled.

1.3 Payments in Cash Book not in Bank Statements

The statement of financial assets as at 30 June 2017 reflects bank balance of Kshs.4,410,274 which has been arrived at after payments in cash book not yet recorded in bank statement amounting to Kshs.2,525,803.28. Out of this amount, bank statements showing when cheques amounting to Kshs.675,102.25 were subsequently cleared by the bank were not availed for audit review.

Consequently, the accuracy and completeness of the bank balance of Kshs.4,410,274 as at 30 June 2017 could not be confirmed.

2. Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June 2017 contained unsupported expenditure amounting to Kshs.14,091,900 as detailed below:

Component	Note	Project Name	Activity	Amount (Kshs.)	Anomalies Noted
Other Receipts	3	-	-	15,000	Supporting schedule for these receipts was not availed for audit verification
Domestic Travel and Subsistence Allowances	5	-	-	76,900	Particulars of beneficiaries and journeys travelled were not indicated in the schedules availed for audit review.
Transfers to Primary Schools	6	Mtongwe Primary School	Purchase of a School Bus	7,000,000	The tender advertisement for the procurement was not availed for audit review, neither was the bus availed for physical verification.
Transfers to Secondary Schools	6	Bububu Secondary School	Purchase of a School Bus	7,000,000	The tender advertisement for the procurement was not availed for audit review, neither was the bus availed for physical verification.
Total				14,091,900	

As a result, the propriety, value for money for the expenditure of Kshs.14,091,900 for the year ended 30 June 2017 could not be confirmed.

3. Other Grants and Transfers

The statement of receipts and payments for the year ended 30 June 2017 reflects other grants and transfers of Kshs.47,817,923. The following observations were made out of these payments:

3.1 Acknowledgement of Bursaries

Note 7 to the financial statements for the year ended 30 June 2017 reflects bursaries to secondary schools of Kshs.19,267,462, out of which bursaries amounting to Kshs.3,340,000 were not supported with bank statements showing receipt of the funds and acknowledgment of receipt of the same by the respective schools.

Consequently, the propriety of the expenditure of Kshs.3,340,000 on bursaries for the year ended 30 June 2017 could not be confirmed.

3.2 Emergency Projects

Note 7 to the financial statements for the year ended 30 June 2017 reflects emergency projects of Kshs.9,862,474.59. Included in this amount is Kshs.557,787 for construction of a septic tank at Mwahima Primary School and Kshs.4,000,000 for construction of a perimeter wall round Mtongwe Primary School, all amounting to Kshs.4,557,787. However, at the time of project audit verification in the month of September 2017, no work had been done on the septic tank. Further, during site audit visit on the perimeter wall, coping and finishes work specified in the Bill of Quantities amounting to Kshs.440,621 had not been done and the contractor was not on site. As such, these projects do not qualify as emergency under Section 8(3) of the National Government Constituencies Development Fund which defines emergency as 'an urgent, unforeseen need for the expenditure for which in the opinion of the Committee it cannot be delayed until the next financial year without harming the public interest of the constituents'.

Consequently, the propriety and value for money of the expenditure of Kshs.4,557,787 on construction of a septic tank and perimeter wall for the year ended 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund – Likoni 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 Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

During the year under review, National Government Constituency Development Fund – Likoni Constituency had a budget of Kshs.169,956,132 and actual expenditure of Kshs.134,597,583 or 79%, resulting to net under expenditure of Kshs.35,358,549 or 21% as summarized below:

Item	Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Over Expenditure (Kshs)	Under Expenditure (Kshs)	(%)
Compensation of Employees	4,790,270	3,521,663	-	1,268,607	74
Use of goods and services	14,878,486	7,288,486	-	7,590,000	49
Transfers to Other Government Units	88,646,619	75,691,360	-	12,955,259	85
Other grants and transfers	61,640,757	47,817,923	-	13,822,834	78
Acquisition of other Assets	-	278,151	278,151	-	100
Totals	169,956,132	134,597,583	278,151	35,636,700	21

The under expenditure of Kshs.35,636,700 may have curtailed delivery of goods and services to the residents of Likoni Constituency.

2.0 Projects Implementation

The Fund's projects implementation status report as at 30 June 2017 availed for audit review indicated approved budgetary allocation of Kshs.102,586,874 for twenty-five(25) projects, out of which Kshs.95,926,874 or 93.5% was disbursed to the projects, leaving undisbursed allocations of Kshs.6,660,000 or 6.5%. Further, the report showed cumulative expenditure of Kshs.45,704,559 or 46% of the disbursements, resulting to unspent balance of Kshs.53,622,315 or 54% as detailed below:

S/No	Name of Project	Details of the project/ Activities	Amount of Allocation as per Approved Proposal (Kshs)	Disbursements in 2016/2017 (Kshs)	Cumulative Disbursements (since the start) as at 30 June 2017 (Kshs)	Cumulative Expenditure as at 30 June 2017 (Kshs)	Unspent Disbursement (Kshs.)	% Certified/ complete
1	Mwahima Secondary School	Construction / extension of offices in the administration block	5,000,000	5,000,000	5,000,000	-	5,000,000	0
2	Vijiweni Primary School	Construction of a perimeter wall approximately 500 meters long	5,000,000	5,000,000	5,000,000	4,287,868	712,132	84
3	Mweza Primary School	Construction of a perimeter wall approximately 500 meters long	5,000,000	5,000,000	5,000,000	4,938,883	61,118	97
4	Jamvi La Wageni Primary School	Construction of a perimeter wall approximately 500 meters long	5,000,000	5,000,000	5,000,000	3,229,153	1,770,847	63
5	Consolata Primary School	Construction of a perimeter wall approximately 500 meters long	5,000,000	5,000,000	5,000,000	1,306,000	3,694,000	22
6	Likoni primary school	construction of two classrooms	2,400,000	3,140,000	4,640,000	4,412,345	227,655	94
7	Inspirations Primary School	Repair of walls, floor, windows and doors of four classrooms	1,556,989	1,556,989	1,556,989	1,483,173	73,816	91
8	Maji Safi Primary School	Construction of a 12 door toilet complete with sewer system	2,000,000	2,000,000	2,000,000	1,421,138	578,862	69
9	Mtongwe Primary School	Purchase of 51 seater school bus for the special units students	7,000,000	7,000,000	7,000,000	4,000,000	3,000,000	57
10	Likoni school for the blind	Purchase of 51 seater school bus	7,000,000	-	-	-	-	0

S/No	Name of Project	Details of the project/ Activities	Amount of Allocation as per Approved Proposal (Kshs)	Disbursements in 2016/2017 (Kshs)	Cumulative Disbursements (since the start) as at 30 June 2017 (Kshs)	Cumulative Expenditure as at 30 June 2017 (Kshs)	Unspent Disbursement (Kshs.)	% Certified/ complete
11	Likoni Police Station	Construction of offices	5,000,000	5,000,000	5,000,000	-	5,000,000	0
12	Peleleza primary school	Construction of Toilet Block	1,200,000	1,000,000	2,200,000	1,218,700	981,300	52
13	mtongwe primary school	Construction of resource centre	2,500,000	1,800,000	2,500,000	862,917	1,637,083	34
14	longo primary	Construction of three classrooms	3,680,000	3,680,000	3,680,000	3,401,021	278,979	92
15	Likoni primary school	Construction of Stadium concrete seats and supply of water	7,654,112	7,654,112	7,654,112	3,455,375	4,198,737	44
16	Mwahima secondary school	Drilling of borehole and construction of septic tank	2,200,000	2,200,000	2,200,000	-	2,200,000	100
17	Mwahima secondary school	Construction of septic tank	557,787	557,787	557,787	-	557,787	100
18	Bububu secondary school	Purchase of school bus	7,000,000	7,000,000	7,000,000	-	7,000,000	95
19	Mwahima secondary school	Purchase of office furniture and lockers	800,000	800,000	800,000	-	800,000	100
20	Mwahima secondary school	Construction of perimeter wall	3,300,000	3,800,000	3,800,000	-	3,800,000	100
21	Mwahima secondary school	Construction/extension of administration block	5,000,000	5,000,000	5,000,000	-	5,000,000	100
22	Mweza secondary school	construction of first floor block of six classrooms and principals office	7,050,000	7,050,000	7,050,000	-	7,050,000	100
23	Shikaadabu Chief's Office	Construction of chief's office and hall	8,813,722	8,813,722	8,813,722	8,813,722	-	100
24	Environment	Environment activities	865,152	865,152	865,152	865,152	-	100

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25	Likoni sports	Sports activities	2,009,112	2,009,112	2,009,112	2,009,112	-	100
	Total		102,586,874	95,926,874	99,326,874	45,704,559	53,622,315	

Undisbursed or unspent funds of Kshs53,622,315 means some projects could not be implemented with possible negative impact on service delivery to the residents of Likoni Constituency.

3.0 Projects Verification

During the year under review, twenty-seven (27) projects which received Kshs.99,017,557 were visited in the month of September 2017, out of which thirteen(13) projects which received Kshs.66,884,112 had anomalies as detailed below:

Project	S./No	Activity	Value (Kshs.)	Verification Results/Anomalies Noted
Mwahima Primary School	1.	Construction of septic tank, soak pit, drilling of borehole, towers and related plumbing works	2,200,000	The project was verified and the borehole found not in use due to reported salty water which is unfit for human consumption.
	2.	Construction of perimeter wall	3,800,000	At the time of project verification, plastering and keying work had not been done and no construction work was going on.
	3.	Construction of offices	5,000,000	At the time of project visit, construction work was ongoing with columns/beams being put up. The project was originally a laboratory but the design changes to offices and site instructions for the alterations from the Clerk of Works were not availed for audit review.

	4.	Construction of stadium concrete seats, water well and related plumbing works	7,654,112	The project was verified and found complete but not in use nor handed over. Also, it is not clear who is to manage the stadium.
Mtongwe Primary School	5.	Purchase of school bus	7,000,000	The bus was not available for physical nor its location at the time of audit verification disclosed.
	6.	Construction of perimeter wall	5,000,000	Perimeter wall is incomplete, up to shoulder level, with no indication of expected further funding. The project might have been abandoned.
Jamvi La Wageni	7.	Construction of perimeter wall	4,500,000	At the time of audit verification, the project had stalled at the shoulder level with columns missing in completed sections.
Consolata Primary School	8.	Construction of perimeter wall	5,000,000	At the time of audit verification, the project had stalled at the shoulder level on two sides with the third side done up to about a meter high. The fourth side and columns had not been constructed.
Longo Primary School	9.	Construction of three classrooms	3,680,000	It was observed during a visit of the school that timber rafters were not treated despite the same being one of the specifications in the Bill of Quantities.
Mweza Primary School	10.	Construction of perimeter wall	5,000,000	The project was verified and found incomplete with only two sides done and the contractor was not on site.
Mweza Sec School	11.	Construction of classrooms, library and principal's office	7,050,000	When the project was verified, the classrooms were complete but not in use.
Vigiweni Primary School	12.	Construction of perimeter wall	5,000,000	At the time of audit verification, the project had stalled at the shoulder level.

Maji Safi Primary School	13.	Construction of toilet block(Including Pit latrine)	2,000,000	A visit of the project revealed no pit latrine constructed and in its place was a septic tank. Further, it was observed that there a gap on the upper side of the wall separating boys' and girls' toilets, wooden rafters and purlins not treated and only single paint coat done on walls, doors and fascia board instead of three coats specified in the Bill of Quantities.
Total			66,884,112	

Consequently, the Fund may have failed to obtain value for money spent on the projects for the year ended 30 June 2017. Hence there is need of proper implementation and follow up mechanism to ensure that projects are fully implemented for better delivery of goods and service to the citizens of Likoni Constituency.

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 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 National Government Constituencies Development Fund - Likoni Constituency's ability to 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 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 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 Fund 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 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

02 June 2018