

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LUNGA LUNGA 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 - Lunga Lunga a set out on pages 5 to 26 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 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 Lunga Lunga 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.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, 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

1.0 Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2017 reflects Kshs.2,944,416 in respect to payments for compensation of employees. However, records availed for audit indicated that Kshs.98,158.80, deducted as Pay As You Earn (PAYE) was not remitted to the relevant tax collection authority, contrary to Section 10 (1) of the Income Tax Act Cap 470 which requires that before the tenth day of every month, an employer shall pay all amounts of tax deducted. Consequently, the management is in breach of the law and possible fines and penalties have not been provided for in these financial statements.

2.0 Use of Goods and services

2.1 Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June 2017 reflects payments for use of goods and services amounting to Kshs.9,603,193. However, included in this amount is Kshs.2,052,260 which the management failed to provide payment vouchers and other documentary evidence to support the expenditure. Consequently, it has not been possible to confirm the propriety of the Kshs.2,052,260 incurred on use of goods and services.

2.2 Committee Allowances

Note 5 to the financial statement reflects expenditure of use of goods and services of Kshs.9,603,193 out of which Kshs.3,921,000 is in respect to committee allowances. However, the National Government Constituencies Development Fund - Lunga Lunga constituency failed to constitute an oversight committee as required by Section 53 of the National Government Constituencies Development Fund Act, 2015 which requires that the constituency member of the National Assembly to appoint not more than four other members to a constituency oversight committee in consultation with stake holders. Under the circumstances, it has not been possible to confirm the propriety of Kshs.3,921,000 paid as committee allowances.

3.0 Transfer to Other Government Entities

The statement of receipts and payments for the year ended 30 June 2017 reflect a transfer to other government entities balance of Kshs.84,158,070. This amount includes transfer to primary schools, secondary schools and tertiary institutions as detailed in Note 6 to the financial statements. However, physical verification during the month of May 2018 revealed that payments totaling to Kshs.27,699,000 had been paid for works that had not been done. As shown below;

	Project Name	Amount Paid	Remarks
1	Mwashetani High School: 4 Classrooms	999,000	Rain water harvesting, tiles skirting, ceiling board and burglar proofing not done.
2	Mwashetani High School: 3 Classrooms, Administration offices & laboratory	14,650,000	All finishing works not done. Contractor not on site but had been paid the full contract sum. Title being held by a contractor
3	Perani Primary School: Renovation of 3 Classrooms	1,400,000	Walling not done, plastering not done externally, rainwater harvesting not completed
4	Mpakani Primary School: Construction of 4 classrooms	2,650,000 and 2,000,000	External plastering not done, rainwater harvesting and disposal not done, tile skirting not done, 4

			Ceiling fans not fitted, sealing of entire eaves not done, Sign board not done.
5	Lungalunga Primary School: Renovation of 4 Classrooms	3,000,000	Rain water harvesting not fixed and no sign board
6	Wasini Primary School: Renovation of 4 Classroom	3,000,000	Only 11 and not 17 windows fitted , No front gutters, no downpipes, no signboard
	Total	27,699,000	

Under the circumstances, the propriety of the Kshs.27,699,000 incurred on transfer to other Government entities could not be confirmed.

4.0 Acquisition of Assets

The statement of receipts and payments for the year ended at 30 June 2017 reflect acquisition of assets balance of Kshs.3,046,445. This amount includes purchase of ICT equipment, software and other ICT assets amounting to Kshs.1,896,445 acquired during the year as detailed in Note 8 to the financial statements. However, no documentary evidence was provided for audit review to confirm that the acquisition of the assets was budgeted for, procured, received and recorded in the asset register.

Consequently, the propriety of ICT equipment amounting to Kshs.1,896,445 acquired for year ended 30 June 2017 could not be confirmed.

5.0 Bank Balance

The statement of assets as at 30 June 2017 reflect a bank balance of Kshs.5,317,366, while the bank reconciliation availed for audit reflected a cashbook balance of Kshs.5,271,117 resulting to unexplained variance of Kshs.46,249. Examination of bank reconciliation statement availed for audit review reflected unrepresented cheques amounting to Kshs.2,854,855 out of which, Kshs.297,231 were stale cheques. However, the management did not provide explanation for not writing back the stale cheques in the cashbook. Further, the bank reconciliation statement reflected receipts in cashbook not in bank statement amounting to Kshs.19,027. The management did not explain the reason for not banking this amount as 30 June 2017. Consequently, the accuracy and completeness of the bank balance of Kshs.5,317,366 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Lunga Lunga Constituency Development Fund 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 Control and Performance

During the period under review National Government Constituencies Development Fund - Lunga Lunga constituency had a final budget of Kshs.180,657,140 and spent Kshs.134,391,500 or 74% resulting to under absorption of Kshs.46,265,640 or 26% as summarized below;

Expenditure Item	Budgeted Amount (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption (Kshs.)	Under Absorption (%)
Compensation of Employees	4,026,000.00	2,944,416.00	1,081,584.00	26.9%
Use of goods and services	15,139,093.00	9,603,193.00	5,535,900.00	36.6%
Transfers to Other Government	99,633,608.00	84,158,070.00	15,475,538.00	15.5%
Other grants and transfers	58,026,080.00	33,957,017.00	24,069,063.00	41.5%
Acquisition of Assets	3,150,000.00	3,046,445.00	103,555.00	3.3%
Other Payments	682,359.00	682,359.00		
Totals	180,657,140.00	134,391,500.00	46,265,640.00	25.6%

The under absorption of Kshs.46,265,640 or 26% is an indication that goods and services to residents of Lunga Lunga constituency were not delivered.

2.0 Project Implementation Status

The projects status report availed for audit review indicated that a total of Kshs.108,244,321.26 was approved for fifty-one (51) projects by the National Government Constituencies Development Fund Board for projects implementation out of which Kshs.66,700,087 was disbursed as shown below: -

- i. Thirty-seven (37) projects with an allocation of Kshs.61,071,387 were initiated and completed during the year under review
- ii. One (1) project allocated Kshs.7,000,000 had not been started.
- iii. Eight (8) projects with a total allocation of 36,062,934.26 were on going.
- iv. Four (4) projects costing Kshs.4,110,000 were reallocated.

3.0 Projects Verification

During the audit, eight (8) projects with a total cost of Kshs.27,849,000 were inspected in the month of March 2017 and various issues were noted as indicated below:

	Project Name	Amount Paid	Remarks
1	Mwashetani High School: 4 No. Classrooms	999,000	Rain water harvesting, tiles skirting, ceiling board and burglar proofing not done.
2	Mwashetani High School: 3No Classrooms, Administration offices & laboratory	14,650,000	All finishing works not done. Contractor not on site but had been paid the full contract sum. Title being held by a contractor
3	Perani Primary School: Renovation of 3 Classrooms	1,400,000	Walling not done, plastering not done externally, rainwater harvesting not completed
4	Mpakani Primary School: Construction of 2 classrooms	2,000,000	External plastering not done, rainwater harvesting and disposal not done, tile skirting not done, 4 Ceiling fans not fitted, sealing of entire eaves not done, Sign board not done.
5	Mpakani Primary School: Purchase of land	2,000,000	Land purchased

6	Lunga Lunga Primary School: Renovation of 4 Classrooms	3,000,000	Rain water harvesting not done, no sign board
7	Wasini Primary School: Renovation of 4 Classroom	3,000,000	Only 11 and not 17 windows fitted , No front gutters, no downpipes, no signboard
8	Lunga Lunga D.O's office: Construction of four door pit latrine	800,000	Complete and in use
	Total	27, 849,000	

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-Lunga Lunga Constituency's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends 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 National Government Constituencies Development Fund-Lunga Lunga Constituency 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 International Standards of Supreme Audit Institutions (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-Lunga Lunga 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 Fund- Lunga Lunga Constituency's ability to continue as a going concern or 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 Fund-Lunga Lunga Constituency to cease 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 National Government Constituencies Fund- Lunga Lunga Constituency 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

03 July 2018