

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – LURAMBI 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- Lurambi Constituency set out on pages 1 to 19, which comprise the statement of assets as at 30 June 2017, and the statements 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 effects of the matter 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- Lurambi 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 matter described in the Basis for Qualified Opinion section, 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 manner.

Basis for Qualified Opinion

Other Grants and Transfers

Included in the other grants and transfers figure of Kshs.60,919,585 are water projects costing Kshs.5,934,889, which in turn includes Kshs.2,414,889 in respect of Munzeywe Water Project that was paid to local a contractor for borehole drilling at Kshs.1,614,689 and supply and installation of 10,000 litre water tank on a 6 metre steel tower at Kshs.800,200. The project was completed as per completion certificate dated 8 November 2016. However, on physical verification, it was noted that the project was incomplete since the water pump was not installed due to inadequate allocation. In addition, the project is situated on a private land since the processing of the title deed had not been done. Further, the Management intention to hand over the project to the County Government was not yet approved.

Subsequently, the citizens of Lurambi did not receive value for money since the project is not operational as it is not complete.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Lurambi 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 requirements applicable to performing audits of financial statements in Kenya. I believe that the 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 judgments, are of most significance in the audit of the financial statements. Except for the matters raised in the Basis for Qualified Opinion and Other Matter sections of my report, there were no key audit matters to report in the year under review.

Other Matter

1. Budget Performance Analysis

1.1. Original Budget not fully Approved by the Board

The proposed budget was prepared much later in November, 2016 where Kshs.81,896,552 was proposed as the total expenditure for the financial year 2016/2017. The proposal was approved by the Board up to Kshs.66,769,464 and the balance of Kshs.15,127,088 is not yet approved leading to delay in the implementation of projects.

1.2. Statement of Appropriation: Recurrent and Development

Comparison of the budget against actual expenditure for the year 2016/2017 revealed that the transfer from CDF Board was under disbursed by Kshs.30,948,275 (21.67%), transfer to other government units was less by Kshs.15,298,774 (30.91%) and other grants and transfers by Kshs.11,073,349 (15.38%) as indicated in the table below.

Receipt/ Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Utilization Difference	% of Utilisa tion
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Receipts						

Transfers from CDF Board	81,896,552	60,928,114	142,824,666	111,876,391	30,948,275	21.67
Payments						
Compensation of Employees	2,687,633	1,111,680	3,799,313	3,772,959	26,354	7
Use of goods and services	4,683,057	4,036,843	8,719,900	8,642,198	77,702	8.9
Transfers to Other Government Units	18,098,774	31,400,000	49,498,774	34,200,000	15,298,774	30.91
Other grants and transfers	49,294,828	22,698,104	71,992,932	60,919,585	11,073,347	15.38
Acquisition of Assets	7,132,260	1,681,487	8,813,747	-	8,813,747	
Total	81,896,552	60,928,114	142,824,666	107,534,742	35,289,924	

The under-expenditure was attributed to a shortfall of revenue as the Board only disbursed Kshs.51,448,277 out of Kshs.81,896,552.

2. Project Implementation Status Report- On going Projects

Analysis of the Project Implementation Status report from the financial year 2013/2014 to the year under review revealed that the Fund initiated several projects which have not been completed as detailed below:

F/Y	Estimated Cost Kshs.	Approved allocation Kshs.	Total Disbursements Kshs.
2013/14	159,606,365	12,950,000	2,400,000
2014/15	176,958,564	22,118,912	33,615,541
2015/16	250,795,290	37,050,000	34,200,000
2016/17	245,605,737	38,731,034.	27,550,000
Total	832,965,956	110,849,946	97,765,541

From the above, projects estimated Kshs.832,965,956 were initiated from the financial year 2013/2014 to 2016/2017. Out of this amount, Lurambi CDFC had allocated Kshs.110,849,946 and disbursed Kshs.97,765,541. Further, thirty (15) projects costing Ksh.24,400,000 verified on April 2018 status was as indicated below;

Projects Verified				
	Project Name	Project Description	Amount Kshs.	Status
1	Lwesero Health Centre	Construction of Twin staff Houses	2,800,000	Complete but not occupied

2	Ekapwonje Primary School	construction of two new classrooms	1,000,000	Ongoing
3	Isumba Dispensary	Drilling of water & completion of dispensary	1,000,000	Dispensary-completed & in use Water- drilled but pump not installed hence not in use
4	Eshikhuyu Dispensary	Construction of Twin staff Houses	1,600,000	Complete but not occupied
5	Emukangu Primary School	Construction of two new classrooms and land purchase	2,200,000	Classrooms-ongoing Land- one acre purchased at Kshs 800,000.00
6	Chief Mutsembi Primary School	Land Purchase	2,000,000	1/4 acre of Land purchased
7	Kakamega Primary School	1. Desks 2. Roofing of Storey Building 3. Terrazzo flooring (1 st floor)	3,600,000	Ongoing
8	Shieywe Secondary School	Completion of two classrooms	1,000,000	Completed & in use
9	Kakamega Township Secondary School	Completion of two Laboratories (Work Tops & tiling, gas piping,80 stools,	1,000,000	Completed & in use
10	Shitaho Primary School	Construction of three classrooms	1,000,000	Ongoing-
11	Rosterman Secondary School	Construction of Twin lab	1,500,000	Ongoing-Finished slab
12	Eshisiru Secondary School	Top-up to PTA funds to Purchase of Land	1,500,000	1.4 HA of land purchased at the cost of Kshs 2.5M
13	St. Lawrence Ichina Primary School	Construction of storey building (classrooms and offices	2,000,000	Ongoing (on Rental level)
14	Lwanungu Primary School	Construction of two classrooms	1,200,000	Ongoing
15	Ebwamba Secondary School	Land Purchase	1,000,000	¾ acre purchased
	Total		24,400,000	

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 the Fund's ability to sustain services and applying the going concern accounting assumption, disclosing, as applicable, matters related to sustainability of services.

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.

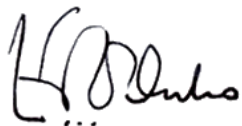
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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 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 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 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

13 July 2018