

**REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT
CONSTITUENCIES DEVELOPMENT FUND - MANDERA EAST 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 - Mandera East Constituency set out on pages 8 to 27, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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. Un-analysed Receipts and Payments Balances

Audit of the National Government Constituency Development Fund - Mandera East for the year ended 30 June, 2017 revealed that balances reflected in the statement of receipts and payments were not supported with detailed schedules or ledgers analyzing the receipts and payments listed below:

Item	Note	Amount (Kshs)
Receipts		
Transfers from CDF board-AIEs' Received	1	107,369,519
Total		107,369,519
Payments		
Compensation of employees	4	2,902,936
Use of goods and services	5	4,860,941
Transfers to Other Government Units	6	53,512,451
Other grants and transfers	7	46,507,800
Acquisition of Assets	8	8,630,429
Total		116,414,557

Under the Circumstances, the accuracy, validity and completeness of the balances amounting to Kshs.107,369,518.6 and Kshs.116,414,556.83 for receipts and payments respectively reported in the financial statements could not be confirmed as at 30 June 2017.

2. Variance Between Statement of Receipts and Payments and Summary Statement of Appropriation (Recurrent and Development Combined)

The statement of Receipts and payments reflects an amount of Kshs.107,369,519 as transfers from the CDF Board. However, the Summary statement of Appropriation (Recurrent and Development Combined) indicates an amount of Kshs.127,091,994 as transfers from the CDF Board resulting to unreconciled variance of Kshs.19,722,475. There was no foot note provided to explain the difference.

Consequently, the accuracy of the actual and budget figures indicated in the financial statements could not be confirmed.

3. Cash and Cash Equivalentents

3.1 Variance Between Cash Book Balance and Statement of Assets balances

The statement of Financial Assets reflects a bank balance of Kshs.8,568,437 as at 30 June, 2017. However, according to the cash book, Board of survey carried out on 1st July, 2017 and the bank reconciliation statement reflected an amount of Kshs.2,906,201 on the same date. The variance between the balance reported in the financial statements and balance shown in the cash book, Board of survey and bank reconciliation statement amounting to Kshs.5,662,236 has not been reconciled or explained.

In the Circumstances, the accuracy, validity and completeness of the Bank balances amounting to Kshs.8,568,437 reported in the statement of assets could not be confirmed as at 30 June 2017.

3.2 Bank Reconciliation Statement

A review of the bank reconciliation statement for the month of June 2017 revealed the following anomalies:

3.2.1 Payments in Cash Book not in Bank Statement (Unrepresented Cheques)

Included in the balance of Kshs.9,587,027 in respect of payments in Cash Book not yet recorded in the Bank Statement (Unrepresented Cheques) are stale cheques amounting to Kshs.2,769,891. Some of the cheques dating back to 2011 were paid to various learning institutions being payment of bursaries to needy students and Kenya Revenue Authority and continued being shown as unrepresented cheques. No explanation was given why the cash book had not been updated.

3.2.2 Receipts in Bank Statement not Recorded in the Cash Book

The bank reconciliation statement indicated an amount of Kshs.10,016,680 as receipts in bank statement not recorded in the cash book as detailed below:

Date	Details	Amount (Kshs)
01/09/2015	Egerton	41,480
01/09/2015	Egerton	20,000
23/02/2016	Unpaid Cheque No. 2129	200
17/08/2016	Cash Book Balance Under Cast	10,000,000
Total		10,061,680

The nature of the cheques from Egerton totaling to Kshs.61,480 deposited in the bank and the cause of Cash Book under cast amounting to Kshs.10,000,000 has not been explained or rectified.

3.2.3 Receipt in Cash Book not in Bank Statement

An amount of Kshs.4,030,000 was reflected in the Bank reconciliation statement as receipt in Cash Book not in bank Statement as detailed below:

Date	Details	Amount (Kshs)
01/09/2015	Cheque Replacement (2019)	20,000
01/09/2015	Cheque Replacement (1861)	10,000
30/08/2016	Inward Swift (Direct Deposit)	4,000,000
Total		4,030,000

No explanation was given why the cheques replaced in 2015 had not been reflected in the bank statement and how the Inward Swift or direct deposit amounting to Kshs.4,000,000 made in August 2016 has not been reflected in the bank statement for ten (10) months.

3.2.4 Payment in Bank Statement not in Cash Book

Included in the Payments in Bank Statement not in Cash Book balance of Kshs.1,751,912 reflected in the bank reconciliation statement, is an amount of Kshs.488,925 which are mainly bank charges(198,925), Cheques not deposited (145,000) and Cash Book under/over cast (145,000). Some of the bank charges and other transactions dated back to January, 2016 and have not been cleared. It was further noted that out of the Kshs198,925 reflected as Bank charges, an amount of Kshs.96,307 was indicated as previous bank charges. Details of the previous bank charges and the period they relate to were not stated nor provided for audit scrutiny.

3.3 Outstanding Imprest

The statement of financial assets and Note 11 of the financial statements reflects outstanding imprest of Kshs.2,109,000 as at 30th June, 2017 held by the Fund Account. The purpose of the imprest and due date for surrender were not stated. No reason was given why the imprest remained un-surrendered contrary to the financial regulations.

In view of the foregoing, the accuracy and completeness of the cash and cash equivalents balance of Kshs.8,568,437 as at 30 June 2017 could not be ascertained.

4. Transfers to Other Government Units

4.1 Irregular Procurement of Secondary School Projects

Examination of payment vouchers, project files and other records revealed that the National Government Constituency Development Fund – Mandera East transferred an amount of Kshs.6,200,000 as grants to various Secondary schools for construction of class rooms, Staff houses and Laboratory block. It was however observed that the tender notices and tender documents submitted by the tenderers did not set the criteria to be used for the evaluation of tenders. It was therefore not clear how the tenders were evaluated. Further, the project files did not contain documents such as tender opening register, certificate of practical completions, inspection and acceptance committee reports. There were no contract agreements created and signed between Project Management Committees and Contractors contrary to the provision of section 135 of the Public Procurement and Asset Disposal Act 2015. In addition, the PMCs tender committee did not sign one or more pages of the Bills of quantities as required by Public Procurement and Asset Disposal Act, 2015.

In the Circumstances, the probity and propriety of the expenditure amounting to Kshs.6,200,000 could not be ascertained as at 30 June 2017.

5. Purchase of Motor Vehicles

Included in the balance of Acquisition of Assets under Note 9 to the financial statement is an expenditure on the following assets;

Assets Procured	Amount (Kshs)
Refurbishment of Buildings	1,000,000
Purchase of Vehicles	6,630,429
Purchase of Office furniture and fittings	1,000,000
TOTAL	8,630,429

However, examination of payment vouchers, supporting documents and tender documents in respect of motor vehicle purchase revealed that the National Government Constituency Development Fund – Mandera East purchased a 4X4 H/Duty Land cruiser single cab pickup costing Kshs.5,684,000 and a Hilux 4x4 double cabs costing Kshs.4,895,000 all totalling to Kshs.10,579,000 procured from Toyota Kenya. The

difference between the balance reported in the financial statement on purchase of vehicles and what was supported by the payment vouchers, supporting documents and tender documents amounting to Kshs.1,048,571 has not been explained or reconciled.

It was further observed that the Vehicles were directly procured without competitive bidding. There was no evaluation report, delivery notes and the report of the inspection and acceptance committee attached to the payment voucher or availed for audit review. Although the vehicles were delivered and physically verified, it could not be confirmed whether the vehicles supplied met the specifications of the vehicles ordered and paid for. It was further noted that log books of the motor vehicles were not availed for audit review to confirm ownership of the vehicles.

In consequence, the accuracy, validity, probity, valuation, and ownership of the motor vehicles stated at Kshs.10,579,000 could not be confirmed.

6. Other Grants and Transfers

6.1 Unsupported Environmental Projects

Included in the Other grants and transfers balance of Kshs.44,175,286 reflected under Note 7 to the financial statement is an expenditure of Kshs.2,513,000 incurred on establishment of school's tree nurseries and seedling development within the constituency. However, the expenditure was not supported with contract agreement and minutes of award of contract and inspection and acceptance committee reports, among other records. Further, distribution list to various school were not acknowledged by the schools' managements. It was therefore not possible to confirm whether the seedlings were procured, supplied, delivered to the schools

Under the circumstances, it has not been possible to confirm the authenticity and value for money of the expenditure amounting to Kshs.44,175,286 as at 30 June 2017.

6.2 Procurement of Security Projects

Included in the Other grants and transfers balance of Kshs.44,175,285.83 reflected under Note 7 to the financial statement is an expenditure of Kshs.3,000,000 incurred on fencing of arabia Administration Police Camp. Examination of payment vouchers and other records revealed that the payment was not supported with tender evaluation report, contract agreement, Certificate of practical completion and inspection and acceptance Committee report. It was therefore not possible to confirm whether the project was implemented in accordance with the project specifications.

Further, the tender opening committee did not sign one or more pages of the Bills of quantities as required by section 78 (9) of the Public Procurement and Disposal Act, 2015. It was further observed that the tender notices availed did not set the criteria to be used for evaluation of tenders, contrary to section 80(2) of the Public Procurement and Asset Disposal Act, 2015, which sets out that evaluation and comparison shall be done using the procedures and criteria set out in the tender documents.

Under the circumstances, it has not been possible to confirm whether the project worth Kshs.3,000,000 was procured in a fair and transparent manner

6.3 Procurement of Sport Project

Included in the Other grants and transfers balance of Kshs.44,175,285.83 reflected under Note 7 to the financial statement is an expenditure of Kshs.2,000,000 incurred on Procurement of Sport Project. However, examination of payment voucher number 240 of 13/12/2017, the Project files and other supporting documents revealed that the payment was not supported with by contract agreements signed between the contractors and the Procurement Entity, report of the Inspection and Acceptance Committee to support the payments. Further, Signed distribution list showing the beneficiaries of the sports equipment was not attached to the payment vouchers or availed for audit review.

Under the circumstances, it has not been possible to confirm the authenticity of the expenditure amounting to Kshs.2,000,000 as at 30 June 2017.

6.4 Unaccounted for Bursary Expenses

Included in the Other grants and transfers balance of Kshs.44,175,286 reflected under Note 7 to the financial statement is an expenditure on bursary to secondary schools amounting to Kshs.11,484,200 and bursary to tertiary institutions amounting to Kshs.8,894,085.83 all totaling to Kshs.20,378,286. It was however observed that the criteria used in awarding the bursary was not known since the minutes of the vetting committee and the application forms were not made available for audit review.

Further, out of the Kshs.20,378,286 paid as bursaries to the needy students, an amount of Kshs.4,516,586 has not been acknowledged through official receipts or acknowledgement letters by the beneficiary institutions. It was further observed that cheque dispatch register was not opened to record the cheques that were issued out and the payment schedule supporting the payments did not show the level of studies of the bursary beneficiaries

In the Circumstances, the propriety of the expenditure amounting to Kshs.20,378,286 could not be ascertained as at 30 June 2017.

7. Budget Control and Performance

A review of the summary statement of appropriation revealed that during the year under review, the National Government Constituency Development Fund - Mandera East had an approved budget amounting to Kshs.168,040,268.87. Out of the Kshs.168,040,268.87 budgeted, an amount of Kshs.19,722,475.15 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	168,040,269	127,091,994	40,948,275	76%

Expenditure	168,040,269	118,523,557	49,516,712	71%
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The above analysis reflects actual receipts of Kshs.127,091,994 against a budgeted amount of Kshs.168,040,269 resulting to underfunding of Kshs.40,948,275 or 24% of the funds budgeted for the year. Further, the Fund spent an amount of Kshs.118,523,557 against a budgeted amount of Kshs.168,040,269 resulting to under expenditure of Kshs.49,516,712 or 29% of the approved budget. The under expenditure was recorded in all the components as detailed below:

Item	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under Expenditure (Kshs)	% Difference
Compensation of employees	4,710,753	2,682,206	2,028,547	43%
Use of goods and services	6,837,069	6,563,177	273,892	4%
Transfer to other Government units	67,250,000	49,650,000	17,600,000	26%
Other grants and transfers	73,362,879	44,175,286	29,187,593	40%
Acquisition of assets	15,879,568	15,452,888	426,680	3%
TOTAL	168,040,269	118,523,557	49,516,712	

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

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 continue 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'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 - Mandera East 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

11 October 2018