

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund- Manyatta Constituency set out on pages 5 to 27, which comprise statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation 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- Manyatta Constituency as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the 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 Cash and Cash Equivalents Balances

The statement of assets reflects cash and cash equivalents of Kshs.1,733,099 as at 30 June 2017. However, a review of the Fund's bank reconciliation statement for the month of June 2017 revealed un presented cheques totaling Kshs. 2,844,271. Further, included in the Kshs.2,844,271 unrepresented cheques were cheques totaling to Kshs.39,800 which were stale but had not been reversed in the cash book as at 30 June 2017.

In addition, the bank reconciliation statement for the month of June 2017 had receipts in bank statement not yet recorded in cash book amounting to Kshs.1,783,913 in respect to the period between 3 March 2015 to 18 July 2016. No reasons were provided as to why these long outstanding bank receipts had not been posted in the cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,733,099 as at 30 June 2017 could not be confirmed.

2.0 Irregular Works Procurement for One Storey Kiriari Resource Centre at Kiriari Market

During the year under review, the Fund entered into a contract with Isaac and Timothy Company Ltd for the completion of Kiriari resource centre at a contract sum of Kshs.13,049,580. However, the awarded firm submitted financial statements for three years as evidence of strong financial standing while the standard tender document sent out to the bidders required them to submit profit and loss statements and auditors' report for the past five years. Further, two bidders; Isaac and Timothy Co. Ltd and Truco Enterprises Ltd. had same directorship creating doubts in respect to ownership of the two companies.

In the circumstances, the procurement process for this project did not conform to the requirements of Section 227 of the Constitution and it was not possible to ascertain that the Fund got value for money in the Kshs.13,049,580 contract as at 30 June 2017.

3.0 Security Project

3.1 Dallas Administration Police (AP) Camp

During the year 2015/2016, Dallas AP Camp was funded with Kshs.950,000 for the construction of a new administration police camp. However, physical verification done on 13 September 2017 revealed that no construction works had been done and the Kshs.950,000 remained unaccounted for.

In the circumstances, the propriety and value for money of the Kshs. 950,000 as at 30 June 2017 could not be established.

3.2 Kangaru Police Post

During the year under review, Kangaru Police Post was granted Kshs.3,900,000 for the construction of an office block and Kshs.4,100,000 for construction of staff houses all totaling Kshs.8,000,000. Separate tenders were advertised for the two projects and Jaytton Enterprises Ltd won the contract for the construction of the office block at a contract sum of Ksh.3,894,723 while Orientalwise Auto Garage Ltd won the contract for the construction of staff houses at a contract sum of Kshs.3,756,452. A physical verification done on 13 September 2017 revealed that the projects were complete and had been put into use. However, a review of records made available revealed that the contract for the construction of the office block started on 20 March 2017, three days after the offer was done on 17 March 2017. This was contrary to Section 135 (3) of the Public Procurement and Asset Disposal Act, 2015, which states that a contract should be signed after fourteen (14) days from the date notification of offer. In addition, regret letters done to the unsuccessful bidders did not include the reasons for failure as is required by the Section 87(3) of the public procurement and asset disposal Act 2015.

In the circumstances, the Fund was in breach of the Public Procurement and Disposal Act,2015 Section 87(3) and Section 135(3) and it has not been possible to ascertain value for money in the expenditure of Kshs.7,651,175 as at 30 June 2017.

4.0 Education Projects

4.1 Kairuri Secondary School

Kairuri Secondary School was funded with a total of Kshs.1,000,000 for the completion of a dining hall/kitchen. Previous funding towards the project was Kshs.1,500,000 bringing the total funding to Kshs.2,500,000 as at 30 June 2017. The project was awarded to Njeka Contractors & General Suppliers at a contract sum of Kshs.3,361,060 as per the contract signed on 25 May 2015.

However, a physical verification done on 13 September 2017, almost two years after the signing of the contract, confirmed that the project was still work- in- progress with all the walls put up to the lintel level and ready for roofing but the contractor was not on site.

In the circumstance, the constituents and stakeholders of Kairuri Secondary School may not get the benefits intended from the Kshs.3,361,060 project due to its delayed completion.

4.2 Dallas Primary School

During the year under review, Kshs. 1,600,000 was transferred to Dallas Primary School Project Management Committee (PMC) for construction of three classrooms.

However, the School did not have a title deed for the land on which the class rooms were to be built. Further, two of the three class rooms had not been put to use as at the time of this audit in September 2017. In addition, the building had serious cracks that run from down to top on the back wall, an indication of poor workmanship or sub-standard materials used.

In the circumstance, the propriety and value for money of Kshs.1,600,000 as at 30 June 2017 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Manyatta 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 matter described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget and Budgetary Control

During the year under review, the Constituency approved a budget of Kshs.139,791,416 composed of Kshs. 81,896,552 for the year under review and Kshs.57,894,864 brought forward from the previous year. However, the Fund received Kshs.137,153,485 from the National Government Constituency Development Fund Board leading to a revenue shortfall of Kshs.2,637,931 being fund not received from the Board.

Further, out of the total budget of Kshs.139,791,416, only Kshs.135,420,386 (97%) was utilized to fund projects in various sectors within the Constituency. An amount of Kshs.4,371,030 budgeted to be spent during the financial year ended 30 June 2017 was therefore not spent as follows;

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	Performance
Receipts	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	%
Transfers from CDF Board	81,896,552	57,894,864	139,791,416	137,153,485	2,637,931	98
Total Receipts	81,896,552	57,894,864	139,791,416	137,153,485	2,637,931	
Compensation of Employees	1,882,400	503,875	2,386,275	1,198,830	1,187,445	50
Use of goods and services	5,488,289	6,386,851	11,875,140	11,707,510	167,630	98
Transfers to Other Government Units	22,989,655	17,513,513	40,503,168	37,531,513	2,971,655	93
Other grants and transfers	50,536,208	33,011,325	83,547,533	83,503,233	44,299	100
Acquisition of Assets	1,000,000	479,300	1,479,300	1,479,300	-	100
Total	81,896,552	57,894,864	139,791,416	135,420,386	4,371,030	

In the circumstances, the residents of Manyatta Constituency did not obtain promised and expected services equivalent to the unspent amounting to Kshs.4,371,030 as at 30 June 2017.

2.1 Project Implementation

The approved budget was apportioned among various sectors within the Constituency namely primary and secondary schools, sports, water, security, bursary, and emergency projects and administration and committee expenses.

Review of the project implementation status report for the period 2016/2017 revealed that 74 projects worth Kshs.96,203,375 were completed, and only 17 worth Kshs.26,875,828 were ongoing as at 30 June 2017 as shown in the table below:

Sector	Project Status	Amount Allocated	Amount Disbursed	No of Projects
Emergency	ongoing	4,094,828	4,017,674	5
Sports	Complete	1,637,931	1,637,931	1
Bursary	Complete	49,274,500	49,274,500	3
CDF Office	Complete	1,479,300	1,479,300	1
Education Projects	Complete	15,750,513	15,750,513	36
"	complete	988,000	988,000	5
"	Ongoing	10,781,000	10,781,513	10
Tertiary	Ongoing	11,000,000	11,000,000	1
Security Projects	Complete	22,953,425	22,953,425	21
"	Ongoing	1,000,000	1,000,000	1
Environment	Complete	3,863,447	3,863,447	5
Water	Complete	256,256	256,256	2
Totals		123,079,200	123,002,559	

However, the records made available to show that the open public forums were held in each ward for project identifications did not show the list of projects proposed and by whom.

Further, no constituency committee minutes were made available to show that the committee deliberated on the projects proposed during the open forums and did a prioritization of the projects.

In the circumstances, it could not be confirmed that the public participation in the projects identification was carried as required by Section 27 of the National Government Constituencies Development Fund (NGCDF) Act 2015.

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, 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.

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 of Kenya. 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 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 offering 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 consolidated/ 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 to cease to continue Offering 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 of the fund's activities 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

06 July 2018