

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Maragua Constituency set out on pages 7 to 24, 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Maragua 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, except for the matter described in the Other Matter section 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Maragua 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 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. There were no Key Audit Matters to communicate in my report.

Other Matter

1. Unutilized Security Projects

Included in the other grants and other payments figure of Kshs.89,955,781 as disclosed in note 7 to the financial statements is security projects expenditure of Kshs.21,328,665 out of which Kshs.4,100,000 was for construction of AP housing units, assistant chief's offices and an AP Post completed during the year under review. However, the projects had not been put into use at the time of audit in June 2018 as follows:

Project Name	Project Activity	Amount –Kshs.
1. Kimorori Administration Post	Construction of 4 No. AP houses	600,000
2. Kimorori Divisional Office	Construction of 6 units staff houses	1,000,000
3. Mutithi Assistant chief's Office	Construction of an office	500,000
4. Mihang'o AP Post	Construction of 2 AP houses	500,000
5. Kaharo AP Post	Construction of AP post and Armory	1,000,000
6. Kamuiro Assistant Chief's office	Construction of office	<u>500,000</u>
	Total	<u>4,100,000</u>

No justification was provided for failure to utilize the projects to serve the public.

2. Construction of Administration Block at Kahaini Primary School

Included in the transfer to other government entities figure of Kshs.67,925,431 as disclosed in note 6 to the financial statements is transfer to primary schools amount of Kshs.21,328,665 out of which Kshs.1,000,000 was for construction of administration block at Kahaini Primary School. However, physical inspection of the project in July 2018 revealed some parts of the floor had visible cracks while the ceiling and wall painting had not been done, an indication of poor workmanship. It is not clear why the CDF and project management committee did not compel the contractor to carry out the works as per bills of quantities. In the circumstances, it has not been possible to confirm whether value for money was obtained for the expenditure.

3. Ineffective Expenditure on Kamwanya Water Project

Included in the other grants and other payments figure of Kshs.89,955,781 as disclosed in note 7 to the financial statements is expenditure of Kshs.7,650,000 in respect of water projects amount of Kshs.21,328,665 out of which an amount of Kshs.600,000 disbursed to Kamwanya Water Project for piping works. Although physical inspection of the project revealed that pipes were laid on the ground, no water was flowing to the community as at the time of this audit in July 2018. No explanation was given for the cause of the dry pipes. Further, it is not clear if the CDF management involved the technical departments in the

Ministry in project implementation. Therefore, the objective of supply of water to the community was not achieved hence loss of public funds.

4. Road projects

Included in the other grants and other payments figure of Kshs.89,955,781 as disclosed in note 7 to the financial statements is roads expenditure of Kshs.10,600,000 out of which an amount of Kshs.2,000,000 was spent on bush clearing, grading, sport patching of the Mbombo Tana road. However, physical verification carried out in July 2018, indicates that the road is maintained by Kenya Rural Roads Authority (KERRA) an indication that there could be overlap of works done by the CDF and KERRA. The Fund management has not provided explanation for the inconsistency.

As a result, the validity and regularity of the expenditure of Kshs.2,000,000 incurred on the road during the year ended 30 June 2017 could not be confirmed.

5.0. Budget Performance Analysis

5.1 Overall Budget Performance

During the year under review, the CDF approved budget total Kshs.176,057,154 against actual expenditure of Kshs.173,767,894 resulting in under-utilization of budget by Kshs.2,289,260, or 99% absorption rate which commendable.

5.2. Project Implementation

A review of project implementation status report showed that the CDF budgeted to undertake seventy-three (73) projects during the year 2016/2017, while seventy-four (74) projects were completed including twelve (12) projects under emergency which were not listed in the budget. Further, eleven projects in the approved code list were on going as analyzed below:

Transfers to other government Units	No. Budgeted	No. Completed	No. On going	Budget Kshs.	Actual-Kshs.	Variance Kshs.
Primary Schools	46	41	5	30,325,431	30,325,431	0
Secondary Schools	9	6	3	7,400,000	7,400,000	0
Other Grants & Transfers						
Security	18	15	3	10,600,000	10,600,000	0
Emergency	-	12	0	4,094,828	4,482,900	388,072
Sports	-	0	0	1,000,000	1,000,000	0
Bursary	-	0	0	20,474,138	20,474,138	0
Total	73	74	11	73,894,397	74,282,469	388,072

Although the Fund implemented the approved projects, it is recommended that the expenditure should be aligned with the budget to ensure timely implementation of projects.

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 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 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.

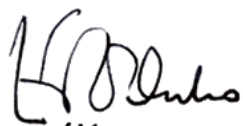
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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 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

25 September 2018