

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATUGA 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 - Matuga Constituency set out on pages 5 to 28, 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 - Matuga Constituency 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, based on the procedures performed, except for matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing else 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 Transfer to Other Government Entities

1.1 Variance in amount transferred to primary schools

The statement of receipts and payments reflects an amount of Kshs.73,021,858 in respect of transfer to other government units out of which Kshs.43,357,446 was transfers to primary schools as detailed in note 6 to the financial statements. However, schedules and payment vouchers availed for audit indicated that the actual expenditure incurred on transfers to primary schools was Kshs.46,957,446 resulting to unexplained nor reconciled variance of Kshs.3,600,000.

Consequently, the accuracy and completeness of transfers to primary school balance of Kshs.43,357,446 for the year ended 30 June 2017 could not be confirmed.

1.2 Matuga Girls' Secondary School

The statement of receipts and payments for the year ended 30 June 2017 reflects an amount of Kshs.73,021,858 in respect of transfers to other government units out of which Kshs.29,664,412 was transfers to secondary schools. Out of this amount Kshs.10,400,809.55 was indicated to have been transferred to Matuga Girls project management committee account for the completion of a modern administration block. The project bank statements availed for audit review, however, revealed that only Kshs.6,626,633.60 was received, as per the approved budget, to the project account leaving the balance of Kshs.3,774,175.95 paid vide voucher number 290258 and cheque no. 2028 dated 6 April 2017 not accounted for.

Further, in the year 2015/2016, Kshs.18,626,633 had been disbursed towards the project bringing the total funding to date to Kshs.29,027,442.50 whereas the revised contract sum was indicated to be Kshs.18,626,634 again resulting to disbursement excess of Kshs.10,400,808.50 above the contract sum.

In addition, project site inspection on 7 June 2018 revealed that the contractor was not on site and no works were ongoing despite the project exceeding the budget. The completion stage was observed not to have changed since the last audit site visit on the month of April 2017 of which it was observed that plastering and electrical works were on going an indication that works had since stalled.

Consequently, the propriety of Kshs.10,400,809.55 transferred to Matuga Girls Secondary School for the year 30 June 2017, could not be confirmed.

1.3 Tiwi Boys Secondary School

The statement of receipts and payments reflects an amount of Kshs 73,021,858 in respect of transfers to other government units out of which Kshs.29,664,412 was transfers to secondary schools. Out of this amount Kshs.1,449,000 was indicated to have been transferred to Tiwi Boys Secondary School project management committee account for the construction of two classrooms.

A site inspection on 6 June 2018 revealed that the project even though completed, had not been put to use and the site remains abandoned. In addition, the building had been vandalized as some of the metal burglar proofing had been cut and doors removed.

Consequently, the value for money of the expenditure amounting to Kshs.1,449,000 for the year ended 30 June 2017 towards the construction of Tiwi Boys Secondary school could not be confirmed.

2.0 Use of Goods and Services

Note 5 to the financial statements reflects use of goods and services amounting to Kshs.8,282,710. However, the supporting schedule availed reflected an expenditure of Kshs.7,980,095.24 under administrative costs and Kshs.3,421,300 under Monitoring and Evaluation giving a cumulative total of Kshs 11,401,395.24 resulting to unreconciled variance of Kshs.3,118,685.24.

Consequently, the propriety, accuracy and completeness of use of goods and services balance of Kshs.8,282,710 for the year ended 30 June 2017 could not be confirmed.

3.0 Cash and Cash Equivalent

The statement of assets reflect a bank balance of Kshs.954,999. The bank reconciliation statement presented for audit revealed that there were payments in the cash book not in bank statement of Kshs.3,473,782 out of which cheques amounting to Kshs.213,501 were stale as at the time of audit. Further, the bank reconciliation reflected an amount of Kshs.29,599.55 being payments in the bank statement not recorded in the cash book. It is not clear why the management had not recorded this amount in the cash book.

Consequently, the accuracy and completeness of bank balance of Kshs.954,999 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Matuga 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 matters described in the Basis for Qualified Opinion section of my report, I have determined that there were no Other Key Audit Matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

During the year under review National Government Constituencies Development Fund - Matuga Constituency had a final budget of Kshs.147,559,795 and spent Kshs.147,039,796 or 99% resulting to under absorption of Kshs.519,999 as summarized below;

Expenditure	Budget	Expenditure	Utilisation Difference	% of Utilisation
Compensation of Employees	2,581,164.00	2,581,164.00	0.00	100.0%
Use of goods and services	8,737,709.00	8,282,710.00	454,999.00	95.0%
Transfers to Other Government Units	73,086,858.00	73,021,858.00	65,000.00	100.0%
Other grants and transfers	62,663,544.00	62,663,544	0.00	100.0%
Acquisition of Assets	490,520.00	490,520.00	0.00	100.0%
TOTAL	147,559,795.00	147,039,796.00	519,999.00	99.6%

The National Government Constituency Development Fund – Matuga constituency had an absorption rate of 99.6% of the funds disbursed during the year.

2.0 Project Implementation Status

The projects status report availed for audit review indicated that a total of Kshs.73,582,561.63 was approved for thirty-two (32) projects by the National Government Constituencies Development Fund Board for projects implementation out of which Kshs 72,831,561.63 was disbursed.

A review of the project status report indicated that:

- i. Twenty-six (26) projects with an allocation of Kshs.53,404,928 were initiated and completed during the year under review.
- ii. Six (6) projects with a total allocation of Kshs.19,426,633.60 were on going.

Slow implementation of projects may affect delivery of goods and services to the residence of Matuga Constituency.

3.0 Projects Verification

During the audit, twelve (12) projects with a total disbursement of Kshs 38,634,525.60 were inspected in the month of June 2018 and five (5) of them had various issues as indicated below:

S/№	Project Name	Activity	Project Cost (Kshs)	Disbursement (Kshs)	Status	Remarks
1	Kombani Primary School	Purchase of 3/4 acre land	600,000	600,000.00	Complete	Land purchased and registered under the school name. Reallocated funds from 2015/16 Emergency
2	Tumaini Secondary School	Construction of Administration block	3,000,000 1,163,482	4,163,482.00	Complete	Used local wood materials for all wood works but was paid for solid hardwood, cedar and solid core flush doors Used 30G iron sheet but paid for 28G – Kshs 136,500 Did not fit gutters – Kshs 13,000 Did not fit mahogany skirting – Kshs 13,200 No internal or external drainage works had been done
3	Matuga Girls' Secondary School	Completion of a Modern Administration block; Windows, fittings & fixtures, plastering, painting, flooring, ceilings(2,901,633.60), Ramp from ground to 1st floor(2,873,560.00) & Floor tiling(851,440.00)	6,626,633.60	10,400,809.60	Not complete	Project fully paid for but contractor not on site and works have stalled.
4	Kichakasimba Girls' Secondary School	Construction of Administration block to completion	3,000,000	3,000,000.00	Not complete	Project fully paid but not complete. Contractor not on site and works have stalled. Retention fee not

						deducted
5	Tsimba Chief's Office	Construction of chief's office	2,850,000	2,850,000.00	Complete	The project is not branded to indicate the year it was funded No title deed availed for project land The roof was done with 30 Gauge iron sheet instead of gauge 28 as provided by the bills of quantities.
	Total			21,014,291.60		

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 - Matuga 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 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

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 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 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 Fund's 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's 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

11 July 2018