

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MSAMBWENI 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 - Msambweni 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 - Msambweni 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 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 Unsupported Use of Goods and Services

The statement of receipts and payments reflects payments for use of goods and services amounting to Kshs.8,917,000 as detailed at note 5 to the financial statements. Included in this amount is domestic travel and subsistence of Kshs.824,700, training expenses of Kshs.1,111,000 and committee expenses of Kshs.4,567,160. However, these expenses were not supported with schedules indicating the respective payment details.

Consequently, it has not been possible to confirm the propriety of Kshs.6,502,860 expenditure incurred for the year ended 30 June 2017.

2.0 Transfer to Other Government Entities

2.1 Payments for Works Not Done

The statement of receipts and payments for the year ended 30 June 2017 reflect a transfer to other government entities balance of Kshs.97,884,803. This amount includes transfer to primary schools of Kshs.41,264,803, secondary schools of Kshs.26,420,000 and tertiary institutions of Kshs.30,200,000 as detailed in note 6 to the financial statements. However, physical verification during the month of May 2018 revealed that payments totaling to Kshs.17,282,120 had been paid for works that had either not been done or partly done as detailed below;

| | Project Name | Allocation | PMC Payments | Project status | Works not done |
|---|---|------------|---------------|-----------------------|--|
| 1 | Darigube Primary School – Construction of 2No. classrooms | 2,700,000 | 1,897,948 | Fully paid and in use | Rain water disposal – Kshs.139,300 Tiles skirting – Kshs.10,800 Ceiling boards – Kshs.85,800 |
| 2 | Milalani Primary School – Renovation of 7no. classrooms | 3,500,000 | 3,499,000 | Fully paid and in use | Contractor used steel doors and frames instead of hardwood – 115,500 (doors) + 46,200 (frames) Windows BQ 35No. but fitted 22 No – ksh222,600 |
| 3 | Magaoni Primary School – Renovation of 3No. classroom | 1,200,000 | 1,200,000 | Fully paid and in use | Steel beams along walk ways –Kshs.9,600 Used 30G instead of 28G for roofing sheets – Kshs.141,000 Notice board – Kshs.3,300 Floor skirting – Kshs.26,250 Window fabric mesh – Kshs.25,200 Eaves & gable filling – Kshs.22,500 |
| 4 | Mwabungo Primary School – Construction of an Administration Block | 1,000,000 | Not supported | Fully paid and in use | Eaves filling – Kshs.5,400 Fitted 2 No. steel doors instead of 2 No. hardwood – 9,000 Used steel door frames instead of hardwood – 15,000 Fitted 6 No. wooden windows with frames and louvres instead of Aluminum casement windows size 2000x1500mm (12No.) & |

| | | | | | |
|---|---|-----------|-------------------|-----------------------|--|
| | | | | | 500x1500mm (20No.) – 50,000 Skirting –Kshs.6,525 |
| 5 | Gombato Boys Secondary – Construction of Dormitory | 2,800,000 | 2,799,000 | Fully paid and in use | Used 30G roofing sheets instead of 28G –Kshs. 192,000 |
| 6 | Gazi Chief's Office – Construction of a Chief's Office | 1,500,000 | 1,500,000 | Fully paid and in use | Ceramic floor tiles – Kshs.153,000 UPVC drain water pipes – 7,200 UPVC accessories (goose neck & shoe) – Kshs.2,000 |
| 7 | Madago Primary School | 2,500,000 | 2,470,551 | Fully paid and in use | Used steel for 5 No. doors instead of hardwood – Kshs.87,500 Used steel for door frames instead of hardwood – 49,500 Used 30G for roofing sheets instead of 28G – Kshs.95,100 Windows BQ 25No. but done 19No. less 6No windows @ 13,500 = Kshs.81,000 |
| 8 | Mwamambi Primary School – Renovation of 3no. classrooms | 1,500,000 | 1,499,000 | Fully paid and in use | Used 30G roofing sheets instead of 28G – Kshs.210,000 Windows BQ 12No. but done 10No –Kshs.27,000 |
| 9 | Mkwakwani Primary School | 2,400,000 | 2,384,000 | Fully paid and in use | Rain water disposal – Kshs.63,000 Skirting –Kshs.4,050 Fitted 2No. steel doors instead of hardwood |
| | Total | | 17,282,120 | | |

Under the circumstances it has not been possible to confirm regularity of Kshs.17,282,120 incurred on transfer to other Government entities for the year ended 30 June 2017.

2.2 Transfer to Youth and Opportunity Centre Project

The statement of receipts and payments for the year ended 30 June 2017 reflect a transfer to other government entities balance of Kshs.97,884,803. Included in this amount is Kshs.30,200,000 being transfers to tertiary institutions out of which Kshs.20,000,000 was transferred to a project management committee for construction of Msambweni Youth Opportunity Centre. A review of the records availed for audit revealed the following anomalies.

- i. Tender evaluation held on 18 November 2016 indicated bidder number 2, 3 and 4 did not submit tax compliance and VAT compliance certificates and were therefore, disqualified at that stage.
- ii. The evaluation committee proceeded to award the tender to a contractor having submitted the lowest quote of Kshs.60,125,880 of the two remaining bidders.
- iii. It was observed that, a contract agreement had been drafted by 8 November 2016 prior to the tender evaluation and award. The agreement indicated that the contractor signed the document on 7 December 2016 whereas the PMC did so on 6 April 2017, four months later. The contract period was indicated to be 6 months from the date given on the contract which translates to 7 June 2017.
- iv. Tender documents including company profiles attached to the bids revealed that bidders number 2 and 5 despite submitting different quotes were actually owned and operated by the same shareholders. The audited financial statements attached to the bids for the two firms revealed that one directors had a substantive control shareholding on both firms.
- v. Examination of the project management committee file revealed that the Fund had embarked to construct the project on a piece of land without securing ownership of the same. The title deed and details of the search, valuation and transfer were not availed for audit review.
- vi. A site verification on 24 May 2018 revealed that even though the contractor's equipment were still on site, no construction work was on going with the project at the ring beam level with 33% of the payment made to the contractor. This was 11 months after the completion period.

Under the circumstances, the propriety of Kshs.20,000,000 transferred to other Government entities for construction of youth opportunity Centre Project for the year ended 30 June 2017 could not be confirmed.

2.3 Transfer to Dori Secondary School Project

The statement of receipts and payments reflect a transfer to other government entities balance of Kshs.97,884,803. Included in this amount is Kshs.26,420,000 being transfers to secondary schools out of which Kshs.9,000,000 was transferred to a project management committee for completion of Dori Secondary School and Kshs.700,000 for the construction of a perimeter fence. As reported in the previous year, included in the transfers to other government entities is Kshs.12,000,000 for proposed construction of laboratory, dormitory, six classrooms, pit latrine, kitchen and administration block at Dori Secondary School. Physical verification on 24 May 2018 revealed that despite the contractor having been paid full contract sum and works certified complete, works amounting to Kshs.4,375,648 remain unfinished as detailed below;

| Building | Description of Works | Physical Verification | Cost |
|--------------------------------------|---------------------------------------|------------------------------|------------------|
| Dormitory | Roofing 28G | Fitted 30G | 289,000 |
| | Gutters 28G | Not fitted | 32,670 |
| | UPVC down pipes | Not fitted | 2,016 |
| | Neck bends & shoe | Not fitted | 1,344 |
| | 96 windows | Fitted 12 windows | 804,000 |
| | Floor skirting | Not done | 3,375 |
| Laboratory | Roofing 28G | Used 30G | 175,100 |
| | Rainwater harvesting – gutters | Not done | 20,230 |
| | Gutters accessories | Not done | 6,017 |
| | Painting of gutters and accessories | Not done | 3,510 |
| | 57 windows | Fitted 15 windows | 412,050 |
| | Floor skirting | Not done | 1,408 |
| | Fume cupboard extract fan | Not fitted | 4,000 |
| | Sinks 27 | Fitted 22 | 202,500 |
| | Water supply 27 sinks | Fitted 22 | 48,462 |
| | Gas supply 27 sinks | Fitted 22 | 14,600 |
| | Drainage 27 sinks | Fitted 22 | 10,368 |
| | Gas tubing 27 sinks | Fitted 22 | 5,697 |
| | 16 Bunsen burners | Not supplied | 16,000 |
| | 16 Bunsen burner pipes | Not supplied | 1,600 |
| | Testing & commissioning | Not done | 3,000 |
| 6 No. Classrooms | 93 No. Windows | Fitted 30 | 673,350 |
| | Rain water disposal | Not done | 81,596 |
| | Floor skirting | Not done | 2,430 |
| Administration on Block | 32 No. windows | Fitted 8 | 227,800 |
| | Window grille 32No windows | Not done | 113,900 |
| | Floor skirting | Not done | 1,305 |
| 1No. 9 door Pit Latrine with urinals | 1No. 9 door4 Pit Latrine with urinals | Not done | 568,120 |
| Prime Cost Sums | Construction of Kitchen | No BQ for structure | 650,000 |
| | | Total | 4,375,448 |

Under the circumstances, the propriety of expenditure of Kshs.4,375,448 transferred to other Government entities for the year ended 30 June 2017 could not be confirmed.

3.0 Acquisition of Assets

The statement of receipts and payments reflects acquisition of assets amounting to Kshs.500,000. This amount relates to acquisition of land. The agreement for sale availed for audit verification indicate that the purchase consideration was Kshs.500,000. However, the fixed asset schedule at annex 4 excludes cost of land acquired during the year ended 30 June 2017.

Consequently, the summary of fixed asset register as at 30 June 2017 is not up to date and the management is in breach of the law.

4.0 Cash and Cash Equivalents

The statement of assets as at 30 June 2017 reflects a bank balance of Kshs.5,950,593. However, bank reconciliation availed for audit indicated there were unrepresented cheques amounting to Kshs.1,665,347 out of which Kshs.24,800 were stale and not reversed in cash book. Further, subsequent bank statements were not availed to confirm when these cheques cleared.

In addition, payments in bank statements not recorded in cashbook amounted to Kshs.12,000 were included in the bank reconciliation, although the management has explained that these were errors in the bank statement these errors had not been corrected despite of numerous correspondence between the bank and the management.

Consequently, the accuracy and validity of the cash and cash equivalent balance of Kshs.5,950,593 as at 30 June 2017 could not be confirmed.

5.0 Prior Year Adjustments

The statement of assets as at ended 30 June 2017 reflects prior year adjustment of Kshs.500,000. This is in contravention of the International Public Sector Accounting Standard No 3 which requires that the amount of correction of an error that relates to prior period should be reported by adjusting the opening balance of accumulated surplus or deficit.

Consequently, the prior year adjustment of Kshs.500,000 is not in line with the accounting standards.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Msambweni 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 and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

During the period under review National Government Constituencies Development Fund - Msambweni Constituency had a final budget of Kshs.161,091,107 and spent Kshs.155,140,514 or 96% resulting to under absorption of Kshs.5,950,593 or 4% as summarized below;

| Expenditure Item | Budgeted (Kshs.) | Actual Expenditure (Kshs.) | Under Absorption (Kshs.) | Under Absorption (%) |
|-------------------------------------|-----------------------|----------------------------|--------------------------|----------------------|
| Compensation of Employees | 3,417,704.00 | 2,988,333.00 | 429,371.00 | 13% |
| Use of goods and services | 9,760,498.00 | 8,917,000.00 | 843,498.00 | 9% |
| Transfers to Other Government Units | 98,470,357.00 | 97,884,803.00 | 585,554.00 | 1% |
| Other grants and transfers | 47,942,548.00 | 43,850,378.00 | 4,092,170.00 | 9% |
| Acquisition of Assets | 500,000.00 | 500,000.00 | | |
| Other Payments | 1,000,000.00 | 1,000,000.00 | - | |
| Totals | 161,091,107.00 | 155,140,514.00 | 5,950,593.00 | 4% |

The under absorption of Kshs.5,950,593 or 4% is an indication that goods and services to residents of Msambweni Constituency were not delivered as planned.

2.0 Project Implementation Status

The projects status report availed for audit review indicated that a total of Kshs.110,067,361.14 was approved for forty-eight (48) projects by the National

Government Constituencies Development Fund Board for projects implementation out of which Kshs.106,500,180.55 was disbursed.

A review of the project status report indicated that:

- i. Thirty-nine (39) projects with an allocation of Kshs.85,000,180.55 were initiated and completed during the year under review.
- ii. Two (2) projects with a total allocation of Kshs.21,500,000 were on going.
- iii. Nine (9) projects were reallocated to seven costing Kshs.13,215,378.

3.0 Projects Verification

During the audit, twelve (12) projects with a total disbursement of Kshs.58,800,000 were inspected in the month of May 2018 and various issues were noted as indicated below:

| | Project Name | Allocation | PMC Payments | Project Status | Works Not done |
|---|---|-------------------|---------------------|-----------------------|---|
| 1 | Darigube Primary School – Construction of 2No. classrooms | 2,700,000 | 1,856,569 | Fully paid and in use | Rain water disposal – 139,300 Tiles skirting – 10,800 Ceiling boards – 85,800 |
| 2 | Milalani Primary School – Renovation of 7no. classrooms | 3,500,000 | 3,499,000 | Fully paid and in use | Contractor used steel doors and frames instead of hardwood – 115,500 (doors) + 46,200 (frames) Windows BQ 35No. but fitted 22 No – 222,600 |
| 3 | Magaoni Primary School – Renovation of 3No. classroom | 1,200,000 | 1,200,000 | Fully paid and in use | Steel beams along walk ways – 9,600 Used 30G instead of 28G for roofing sheets – 141,000 Notice board – 3,300 Floor skirting – 26,250 Window fabric mesh – 25,200 Eaves & gable filling – 22,500 |
| 4 | Mwabungo Primary School – Construction of an Administration Block | 1,000,000 | Not supported | Fully paid and in use | Eaves filling – 5,400 Fitted 2 No. steel doors instead of 2 No. hardwood – 9,000 Used steel door frames instead of hardwood – 15,000 |

| | | | | | |
|----|---|------------|------------|---------------------------|--|
| | | | | | Fitted 6 No. wooden windows with frames and louvres instead of Aluminum casement windows size 2000x1500mm (12No.) & 500x1500mm (20No.) – 50,000 Skirting – 6,525 |
| 5 | Gombato Boys Secondary – Construction of dormitory | 2,800,000 | 2,799,000 | Fully paid and in use | Used 30G roofing sheets instead of 28G – 192,000 |
| 6 | Gazi Chief's office – Construction of a chief's office | 1,500,000 | 1,500,000 | Fully paid but not in use | Ceramic floor tiles – 153,000 UPVC drain water pipes – 7,200 UPVC accessories (goose neck & shoe) – 2,000 |
| 7 | Madago Primary School | 2,500,000 | 2,470,551 | Fully paid and in use | Used steel for 5 No. doors instead of hardwood – 87,500 Used steel for door frames instead of hardwood – 49,500 Used 30G for roofing sheets instead of 28G – 295,100 Windows BQ 25No. but done 19No. less 6No windows @ 13,500 = 81,000 |
| 8 | Mwamambi Primary School – Renovation of 3no. classrooms | 1,500,000 | 1,573,000 | Fully paid and in use | Used 30G roofing sheets instead of 28G – 210,000 Windows BQ 12No. but done 10No – 27,000 |
| 9 | Mkwakwani Primary School | 2,400,000 | 2,384,000 | Fully paid and in use | Rain water disposal – 63,000 Skirting – 4,050 Fitted 2No. steel doors instead of hardwood |
| 10 | Msambweni Technical Vocational Centre | 10,000,000 | 10,000,000 | Complete but not in use | Co-funding with Voi CIT |
| 11 | Dori Girls' Secondary | 9,700,000 | 9,700,000 | Fully paid and in use | Works amounting to Kshs 4,375,648 paid for but not done. |
| 12 | Msambweni Youth and Opportunity | 20,000,000 | 20,000,000 | At ring beam | Works have stalled |

| | | | | | |
|--|--------|-------------------|-------------------|-------|--|
| | Centre | | | stage | |
| | Total | 58,800,000 | 56,982,120 | | |

The project management committee need to improve on supervision to ensure value for money on the 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 National Government Constituencies Development Fund - Msambweni 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 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 National Government Constituencies Development Fund-Msambweni Constituency'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 National Government Constituencies Fund- Msambweni Constituency'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 National Government Constituencies Fund- Msambweni Constituency 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 National Government Constituencies Fund- Msambweni Constituency 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.

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with three dots below the signature.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

06 July 2018