

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MVITA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Mvita Constituency set out on pages 5 to 25, 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 – Mvita 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 Constituency Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for matters highlighted in my Basis of Qualified Opinion section 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. Accuracy of the Financial Statements**

The statement of assets reflects fund balance of Kshs. 41,973,050.38 as at 01 July 2017. However, the opening fund balance was at variance with closing balance for the year 2015/2016 of Kshs.52,703,219.28 resulting to unreconciled variance of Kshs.10,730,168.90.

In addition, statement of cash flows reflects cash and cash equivalent as at 30 June 2016 of Kshs.52,703,219.54 while the cash and cash equivalent as at 01 July 2016 of Kshs. 41,973,050.38 resulting to unreconciled variance of Kshs.10,730,169.16. As a result, the statement of cash flow was inaccurate.

In the circumstances, the accuracy and completeness of fund balance brought forward of Kshs. 41,973,050.38 as at 30 June 2017 could not be confirmed.

#### **2. Bank Balances**

The statement of assets reflects bank balance of Kshs. 14,549,112 as at 30 June 2017. However, included in bank reconciliation statement are casting errors amounting to Kshs.114,670.47 dating all the way back to the year 2012. It has not been clearly explained why the errors have not been corrected for this long.

Consequently, the accuracy and completeness of bank balance of Kshs. 14,549,112 as at 30 June 2017 could not be confirmed.

### **3. Transfers to Other Government Units**

The statement of receipts and payments reflect a figure of Kshs.70,745,970 in respect of transfers to other government units as detailed in Note 6 to the financial statements. Included in this is transfers to secondary schools figure of Kshs.16,202,625 which includes a disbursement of Kshs.10,000,000 on 06 December 2016 for the conversion of Mvita Stima Primary School to a secondary school. However, information available indicates that the project was found not to be viable and a request to reallocate the funds for construction of student hostels at Technical University of Mombasa has been declined by the NG-CDF Board. The management has not explained why proper feasibility studies were not undertaken before allocating funds to the project. As at the time of audit in February 2018, neither had the funds been utilized nor had they been returned. As a result, public funds are lying idle at the expense of other priority projects that should improve service delivery to resident of Mvita constituency.

In the circumstances, value for money from the expenditure of Kshs.10,000,000 for the year ended 30 June 2017 on transfers to other government units could not be ascertained.

### **4. Other Grants and Transfers**

The statement of receipts and payments reflect a figure of Kshs.56,233,128 in respect of other grants and other payments for year ended 30 June 2017 as detailed in Note 7 to the financial statements. Audit verifications revealed the following anomalies:

#### **4.1. Construction of Toilets at Social Halls**

Included in other grants and other payments figure of Kshs.56,233,128 for the year ended 30 June 2017 is a figure of Kshs.5,000,000 in respect of other capital grants and transfers. The figure of Kshs.5,000,000 relates to disbursement for the construction of toilets at Tononoka, Old Town, Tudor, Shimanzi and Mwembe Tayari social halls. Audit verifications revealed that although the funds were disbursed in January 2017, as at the time of audit in the month of November, 2017, the projects had not been implemented. Information available indicates that the project could not be implemented because the activity is a devolved function. As a result, public funds amounting to Kshs.5,000,000 are lying idle at the expense of service delivery.

#### **4.2. Emergency Projects**

Included in other grants and other payments figure of Kshs. 56,233,128 for the year ended 30 June 2017 is a figure of Kshs.2,532,827 in respect of emergency projects. The figure of Kshs.2,532,827 includes disbursement of Kshs.1,794,827 and Kshs.738,000 for construction of Tudor stairs and basic first aid and road safety respectively. Audit verification of the projects revealed that the same did not meet prerequisite conditions for emergency as per Section 8 (3) of NGCDF Act, 2015 which states that, "emergency" shall be construed to mean an urgent, unforeseen need for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents'. It was not clearly explained why the projects could not have been included in the project proposal for the next financial year.

Further, there was no evidence of a report by the Constituency Development Fund Committee to the National Government Constituency Development Fund Board on the utilization of emergency vote as per Section 20 (2) of the National Government Constituency Development Fund Act regulations, 2016 which states that "the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board." The fund was therefore in breach of the law.

In the circumstances, the occurrence, value for money and regularity of other grants and other payments figure of Kshs.56,233,128 could not be confirmed for the year ended 30 June 2017.

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

## **Other Matter**

### **1.0 Budgetary Controls and Performance**

According to the National Government Constituencies Development Fund Board's appropriation, during the financial year 2016-2017, Mvita Constituency Development Fund

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had an approved budget of 126,973,402 compared to the 2015/2016 budget of Kshs. 124,194,643 representing a 2.2% rise. The Mvita Constituency Development Fund had a final budget of Kshs. 126,973,402 and received an allocation of Kshs. 104,031,659 being 81.9 % of the budget for the financial year under review.

The CDF overall budget for the year under review was Kshs. 126,973,402 against total expenditure of Kshs.138,559,364 resulting to overall over-expenditure of Kshs. 11,586,366 or 9% as summarized below:

Budget line	Final Budget Kshs	Expenditure Kshs	Under Absorption (Kshs)	Over-Absorption	Over-Absorption Under Absorption %
Compensation of Employees	3,447,552	3,371,987	75,565		2.2%
Use of goods and services	8,256,486	8,208,682	47,804		0.6%
Transfers to other government units	59,041,381	70,745,970	0	(11,713,589)	19.8%
Other grants and transfers	56,227,982	56,233,128	0	(5,146)	0.1%
<b>Total</b>	<b>126,973,401</b>	<b>138,559,767</b>	<b>123,369</b>	<b>(11,718,735)</b>	<b>9.2% .09%</b>

There was total over-expenditure of Kshs. 11,718,735 on transfer to other government units and other grants and transfers without evidence of approval. This may imply irregular reallocation of funds contrary to Section 6 (2) of the NG-CDF Act, 2015 which provides that, once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

## 2.0 Project Implementation

According to the project implementation status report as at 30 June 2017, the following eleven (11) projects with a total budget of Kshs.28,827,586 were not implemented during the period under review:

No.	Project Name	Activity	Approved Budget	Status
1	Mwembe Tayari toilet	Construction of a toilet	1,000,000	not started
2	Shimanzi toilet	Construction of a toilet	1,000,000	not started
3	Old town toilet	Construction of a toilet	1,000,000	not started

4	Tudor toilet	Construction of a toilet	1,000,000	not started
5	Tononoka toilet	Construction of a toilet	1,000,000	not started
6	Environment	Plant 1000 pieces mangrove trees at Tudor to preserve water and sea animals.	837,931	not started
7	Environment Sparki Primary School	Tree planting	400,000	not started
8	Environment Serani primary school	Tree planting	400,000	not started
9	Social Security Program	Support orphans, vulnerable children, older persons and persons with disabilities and destitute families.	8,189,655	not started
10	Ronald Ngala Primary School	Construction of a modern school football pitch.	4,000,000	not started
11	Mvita Stima Secondary	Conversion of Ziwani Primary into Secondary	10,000,000	not started
	<b>Total</b>		<b>28,827,586</b>	

None implementation of development projects affects delivery of goods and services to the public and the intended purpose of the project may not be realized. It also casts doubt on the effectiveness of the project monitoring and evaluation carried out by the Mvita Constituency Development Fund Committee (CDFC).

### 3.0 Project Inspection

Out of fifteen (15) projects inspected in the month of December, 2017, eight (8) projects were found to have issues as indicated below:-

No.	Name of Projects	Activity	Project Expenditure	Remarks
1	Ganjoni Primary School	Construction of three toilets for students	1,000,000	<ul style="list-style-type: none"> <li>Construction not complete,</li> <li>Toilet sinks were broken, and loose water taps</li> </ul>
2	Ronald Ngala Primary School	Construction of three storey Building	13,491,381	Construction not complete
3	Mombasa Technical Training Institute	Purchase of Equipment for Radio Studio	4,000,000	Studio not in operation as some of the equipment had not been delivered
4	Tudor Primary Library	Fish pond	1,000,000	Project is stalled and not branded

5	Mbheni Bondeni Primary Complex	painting, change of windows and doors of Bondeni and Mbheni primary complex	1,000,000	Noted poor finishing in toilets roof and hanging electrical cables and the project was not branded
6	Kindle Readers	E-Learning equipment	2,600,000	<ul style="list-style-type: none"> <li>• Out of the 120 equipment 80 equipment had not been distributed to schools.</li> <li>• The 40 equipment delivered in the two schools were not operational.</li> </ul>
7	Tudor Police Booth	Construction of borehole and purchase of furniture	650,000	<ul style="list-style-type: none"> <li>• Police booth turned into youth recreation centre</li> </ul>
8	Fahari Primary School	Green house	999,780	<ul style="list-style-type: none"> <li>• Black net was used instead of ash white net</li> </ul>
	<b>Total</b>		<b>24,741,161</b>	

The following additional observations were made during project inspection:

### 3.1. Construction of Fish Ponds at Makande and Tudor Schools

During audit inspection, it was observed that the projects with a total of Kshs. 1,000,0000 have stalled midway and are yet to be completed. The management attributed the status to safety concerns raised by the schools' management citing the project location which pose a danger to the schools' pupils. This implies that the school management were not consulted in the initiation of the project.

### 3.2. Construction of Estate Gates

During the year under review, the Fund disbursed a total of Kshs. 2,841,000 for the construction of four (4) estate gates. However, the contract and bills of quantities did not specify the location of where the gates were to be erected and material for construction. It was therefore not possible to verify the projects. The existence and project status could not be confirmed.

## 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 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 as a going concern/ 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**

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 Mvita Constituency Development 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 Mvita Constituency Development Fund's ability to continue 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 continue 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 Mvita Constituency Development 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**