

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Mwala Constituency set out on pages 5 to 35, 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund- Mwala Constituency as at 30 June 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Presentation and Disclosures in the Financial Statements

1.1. Inconsistencies in Page Numbering

The following inconsistencies have been noted in the table of contents;

Item	Page number in the table of content	Page number in the other information and financial statements
Forward by the Chairman NG-CDFC	4	3
Statement of CDF management responsibilities	5	4
Statement of receipts and payments	6	5
Statement of assets	7	6
Statement of cashflow	8	7

Summary statement of appropriation	9	8
Significant accounting policies	11	10
Notes to the financial statements	13	12

Further, the paging in the financial statements is inconsistent in that pages 10 to 23 have not been printed.

1.2. Summary Statement of Appropriation

The summary statement of appropriation reflects material variances between budgeted expenditure and actual expenditure on compensation of employees (51%) and transfers to other government entities (28%). However, the financial statements have not disclosed the reasons for these significant variances contrary to the requirements of paragraph 1.9.8(c) of International Public Sector Accounting Standard (Cash Basis of Accounting) and regulation 130 of the Public Finance Management (County Government) Regulations, 2015.

1.3. Other Payments

The statement of receipts and payments for the year ended 30 June 2017 reflects other payments of Kshs. 500,000 which as detailed in the Note 9 to the financial statements consist of other payments of Kshs. 295,194 and bank charges of Kshs. 204,806. No further disclosures as to what constitutes other payments of Kshs. 295,194 have been given.

Consequently, the financial statements have not been presented in accordance with the guidelines issued by the Public Sector Accounting Standards Board.

2. Inaccuracies in the Financial Statements

2.1. Bank Balance

The statement of assets as at 30 June 2017 reflects a bank balance of Kshs.13,217,841 while the respective Note 10A to the financial statements discloses a balance of Kshs.9,962,989 resulting in unexplained difference of Kshs.3,254,852.

Bank reconciliation statement for June 2017 reflects stale cheques totalling Kshs.2,039,989 which had not been reversed in the cash book as at that date. The reconciliation statement also reflects undated receipts in cash book not yet recorded in bank statement amounting to Kshs. 2,659,270 all narrated as under-cast except for an amount of Kshs. 7,000 narrated as a cheque duplicate.

Consequently, the accuracy of bank balance of Kshs. 13,217,841 as at 30 June 2017 cannot be confirmed.

2.2. Cash and Cash Equivalents

The statement of cash flows reflects cash and cash equivalents balance of Kshs.12,986,936 at the end of the financial year which is different from the balance of Kshs.13,217,841 shown in the statement of assets hence, resulting in un-explained difference of Kshs. 230,905.

Consequently, the accuracy of cash and cash equivalents balance as at 30 June 2017 cannot be confirmed.

3. In-eligible expenditure

The statements of receipts and payments for the year ended 30 June 2017 reflects expenditure of Kshs. 116,824,935 on transfers to other government entities which include Kshs. 2,400,000 for health institutions. The statement also reflects an expenditure Kshs. 99,889,011 in respect of other grants and transfers which include Kshs. 3,700,000 for water projects. Both health and water are devolved functions under the County Government. The expenditure totalling 6,100,000 on health and water was therefore charged to the Fund contrary to Section 24 of the National Government Constituency Development Fund Act, 2015. The National Government Constituencies Development Fund Board and the Mwala Constituency Development Fund Committee were in breach of the law and consequently, this is an in-eligible expenditure.

4. Compensation of Employees

The statement of receipts and payments also reflects expenditure totalling Kshs. 2,509,430 relating to compensation of employees. This expenditure includes an amount of Kshs. 108,030 being National Hospital Insurance Fund (NHIF) remittances against a budget of Ksh. 54,200. Further, an amount of Kshs. 52,200 was used to settle late payment penalty to NHIF, hence a nugatory expenditure. Had the management taken proper precautions and settled the dues in time, the amount paid as penalty could have been put into other productive use in line with the requirement of prudent and diligent financial management.

5. Prior Year Adjustments

The statement of assets as at 30 June 2017 reflects prior year adjustments of Kshs.3,072,852. However, the nature and source of the adjustments have not been disclosed or explained.

6. Net Financial Position

The statement of assets also reflects net liabilities instead of net financial position of Kshs.13,217,841, being the difference between the brought forward fund balance of Kshs.30,089,414, prior adjustments of Kshs.3,072,852 and the deficit for the year ended 30 June 2017 of Kshs.19,944,425. No explanation has been provided for this anomaly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies

Development Fund-Mwala 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance to the audit of the financial statements for the current year. Except for matters discussed in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no Other Key Audit Matters to communicate in my report.

Other Matter

1. Budget Performance

During the year under review, the Fund's budgeted receipts amounted to Kshs. 290,452,738. However, actual receipts for the year amounted to Kshs. 212,679,048 resulting in a shortfall of Kshs. 77,773,690 or 27%.

The total budgeted expenditure amounted to Kshs. 290,452,738 while the total actual expenditure was Kshs. 232,623,473, resulting in an under expenditure of Kshs. 57,829,265 or about 20%. Compensation of employees and transfers to other government units registered significant under-absorption rates of 51% and 28%, respectively as analyzed below:

Account Components	Final budget figure Kshs	Actual expenditure figure Kshs	Difference between budget and actual Kshs	% Budget under-absorption
Compensation of Employees	5,085,786	2,509,430	2,576,356	51%
Transfers to Other Government Units	161,738,280	116,824,935	44,913,345	28%

Consequently, the residents of Mwala Constituency did not obtain full benefits of funds budgeted for but not spent during the year.

2. Project Implementation

During the year under review, the Fund had an approved budget of Kshs. 271,721,921 in respect of transfers to other government units and other grants and transfers for implementation of various projects and programmes. The status of the projects was as indicated below as of February 2018:

	Project Name	Sub-Project/Activities	Allocations Kshs	Disbursement Kshs	% completion	Status	Remarks
1	Continuous Assessment Tests/Mocks	Assessment tests for all public primary schools in the constituency	1,500,000	1,500,000	0%	-	Re-allocated to bursary
2	Kikelenzu Primary School	Plastering and flooring of 4 classrooms	400,000	400,000	50%	on going	
3	Lema Primary School	Plastering and flooring of 4 classrooms	400,000	400,000	50%	on going	
4	Nyaanyaa Primary School	Construction of 2 classroom to completion	1,200,000	1,200,000	70%	on going	
5	Manzuva Primary School	Construction of 1 classroom to completion	600,000	600,000	0%	on going	Awaiting funds
6	Muthei Primary School	Plastering and flooring of 3 classrooms	300,000	-	0%	on going	Awaiting funds
7	Nyaani Primary School	Construction of 1 classroom to completion	500,000	500,000	50%	on going	
8	Sofia Primary School	Plastering & flooring of 4 classrooms	500,000	500,000	50%	on going	
9	Kyeenguli Primary School	Roofing of 5 classrooms	500,000	-	0%	on going	Awaiting funds
10	Miseleni Primary School	Plastering & roofing of 5 classrooms	500,000	-	0%	on going	Awaiting funds
11	Kitile Primary School	Plastering and flooring of 4 classrooms	400,000	400,000	50%	on going	
12	Kalia Kundu Primary School	Plastering and flooring of 2 classrooms	300,000	-	0%	on going	Awaiting funds
13	Kalau Primary School	Construction of 1 classroom to completion	600,000	600,000	50%	on going	
14	Mutula Primary School	Construction of 1 classroom to completion	650,000	650,000	0%	on going	Awaiting funds
15	Ndeini Girls Secondary School	Construction of 1 classroom to completion	650,000	650,000	50%	on going	
16	Kaloleni Secondary School	Construction of 1 classroom to completion	650,000	650,000	50%	on going	
17	Kimuuni Secondary School	Completion of Science Lab	300,000	-	0%		Awaiting funds
18	Kiuukuni Secondary School	Completion of Science Lab	300,000	-	0%		Awaiting funds
19	Kivani Primary School	Plastering & flooring of 5 classrooms	750,000	-	0%		Awaiting funds
20	Mutula Primary School	Plastering & roofing of 4 classrooms	500,000	-	0%		awaiting funds
21	Kivalani Pri School	Plastering & flooring of 4 classrooms	500,000	-	0%		Awaiting funds
22	Kikumini Primary School	Plastering & flooring of 4 classrooms	600,000	-	0%		Awaiting funds
23	Kyaani Primary School	Construction of 1 classrooms	600,000	-	0%		Awaiting funds

24	Nthangathini Primary School	Construction of 1 classroom to completion	600,000	-	0%		Awaiting funds
25	Tulila Primary School	Completion of School Dispensary	900,000	900,000	50%		In use
26	Kasolongo Primary School	Plastering and flooring of 4 classrooms	400,000	400,000	50%	on going	
27	Myanyani Primary School	Plastering and flooring of 5 classrooms	600,000	600,000	50%	on going	
28	Katheka AIC Primary School	Plastering and flooring of 2 classrooms	300,000	-	0%	on going	Awaiting funds
29	Kyanda Primary School	Plastering and Flooring of 4 Classrooms	600,000	-	0%		Awaiting funds
30	Kwakaluu Primary School	Plastering & Flooring of 3 Classrooms	400,000	-	0%		Awaiting funds
31	Miu DEB Primary School	Plastering & Roofing of 5 Classrooms	700,000	-	0%		Awaiting funds
32	King'atuani Primary School	Construction of 1 Classroom to Completion	600,000	-	0%		Awaiting funds
33	Mavitini Primary School	Plastering & Flooring of 4 Classrooms	400,000	-	0%		Awaiting funds
34	Matulani Primary School	Plastering & Flooring of 3 Classrooms	300,000	-	0%		Awaiting funds
35	Itooni Primary School	Construction of 1 Classroom to Completion	500,000	-	0%		Awaiting funds
36	Wetaa Primary School	Plastering & Flooring of 4 Classrooms	500,000	-	0%		Awaiting funds
37	Kitooni Primary School	Plastering & Flooring of 2 Classrooms	300,000	-	0%		Awaiting funds
38	Kyawango Primary School	Plastering & Flooring of 4 Classrooms	400,000	-	0%		Awaiting funds
39	Etikoni Secondary School	Construction of 1 Classroom to Completion	500,000	-	0%		Awaiting funds
40	Mbiuni High School	Completion of Dining Hall	1,000,000	-	0%		Awaiting funds
41	Kabaa High School	Purchase of 10 Computers	500,000	-	0%		Awaiting funds
42	Mbaani Secondary School	Construction of 1 Classroom	600,000	600,000	50%	New	On going
43	Nyaani Secondary School	Completion of Dining Hall	500,000	-	0%		Awaiting funds
44	Mukuyuni Secondary School	Construction of Science Lab	1,000,000	-	0%		Awaiting funds
45	Kyethivo Girls Secondary School	Purchase of 10 Computers	500,000	-	0%		Awaiting funds
46	Mbaikini Secondary School	Purchase of 10 Computers	500,000	-	0%		Awaiting funds
47	Kilala Secondary School	Construction of 1 Classroom to Completion	500,000	500,000	50%	New	on going

48	Kunikila Secondary School	Completion of Administration Block	500,000	500,000	80%	on going	
49	Matulani Secondary School	Drilling,Casing and Equipping of Borehole	3,000,000	-	0%		Awaiting funds
50	Kwandoo Secondary School	Drilling,Casing and Equipping of Borehole	2,587,931	-	0%		Awaiting funds
51	Mwala Technical Training Institute	Drilling,Casing and Equipping of Borehole	2,000,000	-	0%		Awaiting funds
52	Kona AP Line	Construction of AP Line (Phase II)	1,000,000	-	0%		Awaiting funds
53	CID Office Masii	Plastering and Painting	200,000	200,000	50%	on going	
54	Ngomano Chiefs Camp	Plastering and Painting	200,000	-	0%		Awaiting funds
55	Kibauni Chiefs Office	Plastering and Painting	200,000	-	0%		Awaiting funds
56	OCPD's Office Masii	Plastering and Painting	200,000	200,000	50%	on going	
57	Rural Electrification Authority	Extension of Electricity line and installation of 2 transformers in each of the following areas: 1. Mbiuni-Kathama 2. Mwala-Makutano - Mango 3. Kyawango 4. Masii-Vyulya 5. Wamunyu -Yathui 6. Muthetheni-Miu 7. Kibauni-Ikalaasa-Ngomano	10,000,000	-	0%		Awaiting funds

Consequently, the residents of Mwala Constituency did not obtain value for the projects that remained un-implemented or un-completed as at that as at the end of the financial year under review.

Responsibility 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 ease 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 sustaining 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 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

02 August 2018