

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MWATATE 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 - Mwatate Constituency set out on pages 6 to 28, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of comparison 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, 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 - Mwatate 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 do not 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, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Irregular Funding of Projects

During the year under review, the Fund spent a total of Kshs.8,200,000 on health, agriculture and water projects as summarised below:

Description	Note	Amount (Kshs)
Transfers to Health Institutions	6	1,100,000
Agriculture Projects	7	2,000,000
Water Projects	7	5,700,000

Total		8,200,000
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However, the projects fall under devolved functions and therefore the related expenditure is contrary to the requirement of Section 24 of the National Government Constituencies Development Fund Act, 2015 which provides that 'a project under this Act shall only be in respect of works and services falling within the functions of the national government under the Constitution.

Consequently, the expenditure of Kshs.8,200,000 for the year ended 30 June 2017 on these projects is irregular.

2. Unsupported Expenditure

The financial statements for the year ended 30 June 2017 contained unsupported expenditure amounting to Kshs.17,249,971 as detailed below:

Component	Note	Project Name	Activity	Unsupported Expenditure (Kshs.)	Anomalies Noted
Routine Maintenance – Vehicles and Other Transport Equipment	5	-	-	339,871	The expenditure was incurred on service of motor vehicle registration No.GKA033X. However, pre and post mechanical inspection reports from the Government Mechanical Engineer, log book and work tickets indicating defects were not availed for audit review.
Committee Allowances	5	-	-	2,280,100	Included in committee allowances of Kshs.4,460,600 as disclosed in the Note is Kshs.2,280,100 which is not supported with meetings attendance registers, bus/works tickets and minutes of meetings attended nor reports of monitoring and evaluation committee availed for audit verification.
Transfers to Primary Schools		Kitivo Primary School	Construction of 6 classrooms	8,100,000	The expenditure is not supported with certificates of completion nor project bank statements to confirm receipt of the funds in the project bank account and payments out of the same.
Transfers to Secondary Schools		Mwakitau Secondary School	Completion of administration complex (roofing, plastering, ceiling board, doors and windows)	5,400,000	The amount was transferred vide payment voucher No.466 of 12 January 2017 for Kshs.3,000,000 and payment voucher No.491 of 9 March 2017 for 2,400,000. However, the basis and purpose of these transfers was not explained given that the certificate of practical completion of the project was issued on 26

Component	Note	Project Name	Activity	Unsupported Expenditure (Kshs.)	Anomalies Noted
					February, 2016, about a year earlier.
Other Projects	7	Mwatate Boda Boda	Construction of Mwatate boda boda Sheds	500,000	The expenditure was not supported with bill of quantities, cost estimate, and completion certificate
Sports Projects	7	Purchase of Footballs	Supplier for supply of ninety (90) footballs printed with office emblem.	630,000	Kshs.720,000, out of which Kshs.630,000 was paid to a supplier for supply of ninety(90) footballs printed with office emblem. However, stores ledger card (S.3) to confirm receipt and recording of the items in store before issuance and list of beneficiaries were not availed for audit review
		Total		17,249,971	

Consequently, the propriety of expenditure amounting to Kshs.17,249,971 could not be confirmed.

3. Transfers to Other Government Units

Note 6 to the financial statements for the year ended 30 June 2017 reflects transfers to tertiary institutions of Kshs.10,000,000, being counterpart funding for the construction of Mwatate Technical Training Institute whose contract sum was Kshs.53,999,168. Available records indicated that as at 30 June 2017, the Fund had spent a total of Kshs.16,500,000 on the project as detailed below:

Pv No.	Date	Payee	Activity	Amount (Kshs)
241	17.8.2015	Mwatate Technical Training Institute (MTTI)	Excavation & Grading of 5 KM Road	3,500,000
359	27.5.2016	MTTI	Excavation & Grading of 5 KM Road	3,000,000
447	23.11.2016	Coast Institute of Technology (Mentor Institute)	Construction of a workshop, lecture rooms and office	5,000,000
462	31.12.2016	MTTI	Construction of workshop, lecture rooms and office	5,000,000
TOTAL				16,500,000

However, the part or phase of the project funded was not specified, contrary to Section 25(1) of the National Government Constituencies Development Fund Act, 2015 which provides that 'Any funding under this Act shall be for a complete project or a defined phase of a project'. Further, architectural drawings, Bill of Quantities, tender advertisement, quotations, interim Engineer's certificates, site instructions by the roads

department and bank statements to confirm receipt and usage of Kshs.10,000,000 transferred to the project during the year under review were not availed for audit review.

Consequently, the propriety of expenditure amounting to Kshs.10,000,000 on the construction of a workshop, lecture rooms and office for the year ended 30 June 2017 could not be confirmed.

4. Other Grants and Transfers

4.1 Emergency Projects

During the year under review, the Fund spent a total of Kshs.4,954,703 on emergency projects as disclosed in Note 7 to the financial statements. However, anomalies were noted in the expenditure as detailed below:

Project Name	Activity	Unsupported Expenditure (Kshs.)	Anomalies Noted
Mwatate Technical Training Institute	Completion of road	600,000	The expenditure is not supported with Bill of Quantities, expenditure returns and Engineer's certificate. Further, the opinion of the Constituencies Development Fund Committee was not availed for audit verification, contrary to Section 8(3) of the National Government Constituencies Development Act, 2015 which defines an emergency as an 'urgent, unforeseen need for expenditure for which it is in the opinion of the Committee cannot be delayed until the next financial year without harming the public interest of the constituents'.
Kwa Mnengwa Dispensary	-	360,000	The expenditure is not supported with bank statements to confirm receipt and usage of the funds nor opinion of the CDFC was not availed for audit verification contrary, to Section 8(3) of the National Government Constituencies Development Act, 2015 which defines an emergency as an 'urgent, unforeseen need for expenditure for which it is in the opinion of the Committee cannot be delayed until the next financial year without harming the public interest of the constituents'.
Msangachi Bridge.	Excavation/ backfilling works	1,000,000	The expenditure was not supported with Bill of Quantities, expenditure returns and Engineer's completion certificate. Further, the opinion of the CDFC was not availed for audit verification, contrary to Section 8(3) of the National Government Constituencies Development Act, 2015 which defines an emergency as an 'urgent, unforeseen need for expenditure for which it is in the opinion of the Committee cannot be delayed

Project Name	Activity	Unsupported Expenditure (Kshs.)	Anomalies Noted
			until the next financial year without harming the public interest of the constituents'. Audit inspection of the project in the month of April 2018 found out that the bridge rails had been partly vandalized. Also, the extra works purportedly undertaken were not verifiable.
Water Tanks	Supply of plastic tanks of 10,000-litres each to various sites within the Constituency	1,056,000	The expenditure is not supported with delivery notes, county receipt vouchers, stores ledger cards and counter requisition and issue vouchers. Further, opinion of the CDFC was not availed for audit review, contrary to Section 8(3) of the National Government Constituencies Development Act, 2015 which defines an emergency as an 'urgent, unforeseen need for expenditure for which it is in the opinion of the Committee cannot be delayed until the next financial year without harming the public interest of the constituents'.
Total		3,016,000	

Consequently, the regularity of expenditure amounting to Kshs.3,016,000 on emergency projects could not be confirmed.

4.2 Water Projects

Note 7 to the financial statements for the year ended 30 June 2017 reflects water projects expenditure amounting to Kshs.5,700,000. Included in this amount is Kshs.3,000,000 in respect of Mzima Spring-Mariwenyi Water Project for excavation and installation of five (5) kilometer water pipeline at a contract sum was Kshs.9,139,732.

However, the project's bank statements indicated a total of Kshs.9,036,785 as paid to the contractor as at 30 June 2017, against completion certificate figure of Kshs.5,707,539, resulting to unsupported excess payment of Kshs.3,329,246 which has not been explained nor reconciled.

Further, at the time of project site visit on 5 May 2018, a water tank had been constructed at Mariwenyi and another one including a pump house built next to Vindo Multi-purpose offices. However, the ownership documents for the parcels of land on which these water tanks and pump house were constructed were not availed for audit verification. In addition, the pipes had been laid but not connected to the water tanks and the contractor was not on site.

Consequently, the propriety and value for money for Kshs.3,000,000 spent on water projects during the year ended 30 June 2017 could not be confirmed.

4.3 Construction of Msangachi Bridge

Note 7 to the financial statements for the year ended 30 June 2017 reflects roads projects expenditure amounting to Kshs.1,200,000 on construction of Msangachi Bridge at a contract sum of Kshs.7,300,372. However, the project bill of quantities and Engineer's certificates were not availed for audit verification.

Consequently, the regularity and value for money for Kshs.1,200,000 spent on the bridge during the year could not be confirmed.

5. Bank Balance

The statement of financial assets as at 30 June 2017 reflects a bank balance of Kshs.1,416,868. The Fund's bank reconciliation statement as at 30 June 2017 reflects un-presented cheques of Kshs.3,143,965.90, out of which cheques amounting to Kshs.753,400 were stale. Further, the bank reconciliation statement reflects payments in bank statement not yet recorded in cash book of Kshs.300,000 and receipts in cash book not in bank statement of Kshs.499,049.50, being overstated balance which has been outstanding since year 2015. However, no explanation has been given for non-reversal of the stale cheques, non-recording of the payments in cash book and non-correction of the error. In addition, subsequent bank statements to confirm when cheques amounting to Kshs.2,390,565.90 were cleared by the banks were not availed for audit review.

Consequently, the accuracy, validity and completeness of bank balance of Kshs.1,416,868 could not be confirmed.

6. Cash Balance

The statement of financial assets as at 30 June 2017 reflects nil cash balance. However, the Board of Survey Report as at the same date was not availed for audit review.

Consequently, the accuracy of the nil cash balance could not be confirmed.

7. Project Management Committees Bank Balances

Annex 5 to the financial statements for the year ended 30 June 2017 reflects Project Management Committees bank balances totaling Kshs.7,940,942.80. However, this balance excludes a total of Kshs.2,778,305.55 held in Kenya Commercial Bank Ltd account for four (4) projects as detailed below:

Project Name	Bank Account No.	Amount as per Bank Certificate (Kshs.)
Mengo Primary School	1204810181	1,198,885.00
Msinenyi Primary School	1178731014	276,598.00
Mwatate Technical Training Institute	1171174055	903,387.55
Mwandisha Primary School	1208054562	399,435.00

Project Name	Bank Account No.	Amount as per Bank Certificate (Kshs.)
Total		2,778,305.55

Further, bank certificates of balances amounting to Kshs.7,940,942.80 for thirty-five (35) PMC bank accounts were not availed for audit verification.

Consequently, the accuracy and completeness of Project Management Committees bank balances totaling Kshs.7,940,942.80 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund - Mwatate 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 judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion section of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Controls and Performance

During the year under review, the Fund had a final budget of Kshs.129,338,213 and spent Kshs.120,483,405 or 93.2%, resulting to under expenditure of Kshs.8,854,798 or 3.2% as shown below:

Expenditure	Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption (Kshs.)	Under Absorption (%)
Compensation of Employees	2,931,799	2,931,799	-	-
Use of Goods and Services	11,456,503	11,456,503	-	-
Transfers to Other Government Units	69,698,000	69,698,000	-	-
Other Grants and Transfers	45,251,911	36,397,103	8,854,808	19.6
Total	129,338,213	120,483,405	8,854,798	6.8

The under expenditure of Kshs.8,854,798 or 6.8% indicates non-compliance with the provisions of Section 220 (1) of the Constitution of Kenya which requires budgets of national government to contain estimates of revenue and expenditure, differentiating

between recurrent and development and proposals for financing any budget deficit for the period to which they apply. Further, it is contrary to Section 35(1) of the Public Finance Management Act, 2012 which requires the budget process for the national Government to comprise among other things integrated long term and medium term planning, and determining financial and economic policies and priorities at the national level over the medium term and implementing the budget.

As such, delivery of goods and services to residents of Mwatate Constituency may have been curtailed and the accuracy of the financial statements could not be confirmed.

2. Staff Recruitment

During the year under review, the Constituency Committee recruited seven (7) employees comprising three (3) security guards, two (2) support staff, a driver and a secretary/receptionist. However, evidence of advertisement of the positions was not availed for audit review. It was therefore not possible determine how the staff were identified, shortlisted, interviewed and appointed to the positions.

Further, the Committee did not employ Clerk of Works who has knowledge in construction and an IT staff, contrary to Section 45 (1) of the National Government Constituencies Development Fund Act, 2015 which provides that ‘the Constituency Committee may engage such staff as may be necessary for execution of its functions including persons with knowledge in information and communications technology, construction and basic accounting’. Further, appointment letters of the three guards were not availed for audit review.

Without Clerk of Works, the Fund’s projects may not be properly supervised and implemented as per specifications while the failure to recruit IT staff may impact negatively on project data processing. On the other hand, the validity of appointment of the guards, could not be ascertained without appointment letters.

3. Projects Verification

During the year under review, sixteen (16) projects which received disbursements amounting to Kshs.46,915,000 were inspected in the month of April 2017 and anomalies noted in four (4) of them which received Kshs.11,600,000 as detailed below:

S/No	Payee/ Project	Activity	Amount (Kshs)	Anomalies
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1.	St. John's Mwema Secondary	Completion of laboratory (plastering, gas piping)	4,500,000	At the time of audit inspection, there was no evidence of additional work given that the gas chamber had not been constructed. This was the finding during last year's audit inspection of the project.
2.	Mwakitau Secondary School	Completion of administration complex (plastering, roofing, ceiling, door, windows)	5,400,000	At the time of projects audit verification, the project was complete and handed over but ceiling board was coming off while plumbing works including water closets were not working.
3.	Ngangu Secondary School	Completion of administration block (roofing, plastering, doors and windows)	700,000	At the time of project audit visit, work was going on but the building is partitioned with plywood which is not specified in the Bill of Quantities.
4.	Mwatate Day Secondary School	Construction of classrooms and furniture	1,000,000	At the time of project audit visit, no work had been done nor the furniture availed for audit verification.
	Total		11,600,000	

Consequently, the propriety and value for money for Kshs.11,600,000 spent on the four (4) projects during the year ended 30 June 2017 could not be confirmed.

4. Projects Implementation Status

The Fund's projects implementation status report as at 30 June 2017 availed for audit review indicated approved budgetary allocation of Kshs.18,550,000 for twelve (12) projects, all of which was disbursed to the projects. Further, the report showed cumulative disbursements of Kshs.22,250,000 and cumulative expenditure of Kshs.12,186,995 or 54.8% of the disbursements, resulting in unspent balance of Kshs.10,063,005 or 45.2% as detailed below:

No	Name of project	Details of the project	Amount of Allocation	Disbursements in 2016/2017	Cumulative Disbursements to 30 June 2017	Cumulative Expenditure as at 30 June 2017	Unspent Disbursements	Complete
			(Kshs)	(Kshs.)	(Kshs)	(Kshs.)	(Kshs)	%
1	Kidaya Saghaighu Primary School	Completion of 2 No. classroom (roofing,	1,600,000	1,600,000	2,600,000	2,083,153	516,847	90

No	Name of project	Details of the project	Amount of Allocation	Disbursements in 2016/2017	Cumulative Disbursements to 30 June 2017	Cumulative Expenditure as at 30 June 2017	Unspent Disbursements	Complete
			(Kshs)	(Kshs.)	(Kshs)	(Kshs.)	(Kshs)	%
		plastering, doors and windows)						
2	Kishamba Primary School	Construction of 2 No. classroom	2,600,000	2,600,000	2,600,000	1,689,375	910,625	90
3	Kitivo Primary School	Construction of 6 No. classroom	6,600,000	6,600,000	8,100,000	3,162,003	4,937,997	90
4	Kongoni Primary School	Construction of 1 No. classroom and partitioning)	700,000	700,000	700,000	698,000	2,000	90
5	Mnamu Primary School	construction of 4 door toilet	700,000	700,000	700,000	-	700,000	70
6	Nyolo Primary School	Renovation of 5 No Classrooms (re-roofing)	1,000,000	1,000,000	1,000,000	900,000	100,000	90
7	St. John Mwema Secondary School	Completion of 1No. Science Laboratory (plastering and gas piping)	2,300,000	2,300,000	2,500,000	2,436,951	63,049	95
8	Ngangu Sec School	Completion of an administration block (roofing, plastering, doors and windows)	700,000	700,000	700,000	626,400	73,600	80
9	Mzwanenyi Secondary School	Completion of 1No. Classroom (roofing, plastering, doors and windows)	750,000	750,000	750,000	131,113	618,887	90
10	Mwangoji Secondary School	Renovation of 2No. Classroom (plastering, flooring, doors and windows)	450,000	450,000	1,450,000	460,000	990,000	80

No	Name of project	Details of the project	Amount of Allocation	Disbursements in 2016/2017	Cumulative Disbursements to 30 June 2017	Cumulative Expenditure as at 30 June 2017	Unspent Disbursements	Complete
			(Kshs)	(Kshs.)	(Kshs)	(Kshs.)	(Kshs)	%
11	Mlamba High School	Construction of 4 No. Door toilet	750,000	750,000	750,000	-	750,000	50
12	Josa Primary School	Renovation of 7 classroom and workshop	400,000	400,000	400,000	-	400,000	30
		Total	18,550,000	18,550,000	22,250,000	12,186,995	10,063,005	45.2

In addition, the table indicates percentages of completion for projects at Mlamba High School and Josa Primary School as 50% and 30% respectively yet no expenditure had been incurred on the same as at 30 June 2017.

Consequently, the figures presented in the table appear inaccurate. Further, it has not been possible to confirm whether the projects were implemented as per the approved budget and whether the residents of Mwatate Constituency received value for money for goods and services received during the year under review.

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 - Mwatate Constituency'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 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 National Government Constituencies Development Fund - Mwatate 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 National Government Constituencies Development Fund - Mwatate Constituency 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 National Government Constituencies Development Fund - Mwatate Constituency 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 National Government Constituencies Development Fund - Mwatate 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.



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

Nairobi

29 October 2018