

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

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**REPORT ON THE FINANCIAL STATEMENTS**

**Adverse Opinion**

I have audited the accompanying financial statements of the National Government Constituencies Development Fund- Mwingi Central Constituency set out on pages 5 to 24, which comprise statement of financial 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- Mwingi Central Constituency as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the 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**

**1.0 Accuracy and Presentation of the Financial Statements**

**1.1 Accuracy of the Financial Statements**

The financial statements for the year under review reflects a balance of Kshs.47,016,413 on seven expenditure items. However, the respective supporting schedules reflect a balance of Kshs.42,754,943 on the seven items resulting in an unexplained and unreconciled variance of Kshs.4,261,470 as follows;

<b>Item</b>	<b>Balance as per Financial Statements (Kshs.)</b>	<b>Balance as per Supporting Documents (Kshs.)</b>	<b>Variance (Kshs.)</b>
Transfer to primary schools	20,200,000	17,100,000	3,100,000
Transfers to secondary schools	9,371,413	10,871,413	(1,500,000)

Water	7,575,000	5,875,000	1,700,000
Environment	0	2,500,000	(2,500,000)
Mocks & CAT	7,575,000	0	7,575,000
Emergency	0	4,108,530	(4,108,530)
Acquisition of assets	2,295,000	2,300,000	(5,000)
<b>TOTAL</b>	<b>47,016,413</b>	<b>42,754,943</b>	<b>4,261,470</b>

Further, the combined statement of appropriation : recurrent and development was stated as being for the financial year 2015/2016 while the year under review was the financial year 2016/2017.

In addition, the statement of financial assets indicates a cash and cash equivalents balance of Kshs.14,695,321 as at 30 June 2017 while the statement of cash flows reflects a balance of Kshs.15,348,207 resulting in an unexplained and unreconciled difference of Kshs.652,886.

In the circumstances, the accuracy and completeness of the balances reflected in the financial statements as at 30 June 2017 could not be ascertained.

## 1.2 Presentation of the Financial Statements

The cash basis accounting method under the International Public Sector Accounting Standards reporting format prescribed by the Public Sector Accounting Standards Board requires that a report on follow –up of the previous year’s auditor’s recommendations form part of the financial statements for the year under review. However, although the Fund had an adverse opinion in 2015/2016, no report on the progress made in follow–up issues raised in the audit report has been included in the financial statements for the year under review.

In view of the foregoing, the accuracy and completeness of financial statements for the year ended 30 June 2017 did not comply with International Public Service Accounting Standards (Cash Basis).

## 2.0 Cash and Cash Equivalents

The financial statements for the year under review reflect a cash and cash equivalents’ balance of Kshs.14,695,321 as at 30 June 2017. However, the bank reconciliation statement for the Month of June 2017 included unrepresented cheques totaling Kshs.8,506,190 which included stale cheques totaling Kshs.532,527 which had not been replaced or written back to the cash book as at 30 June 2017.

In addition, the statement of cash flows reflects cash and cash equivalents at the end of the year of Kshs.15,348,207 which differs from the figure reported in the statement of financial assets of Kshs.14,695,321 by unexplained and reconciled variance of Kshs.652,886.

Consequently, the accuracy of the cash and cash equivalents’ balance of Kshs.14,695,321 as at 30 June 2017 could not be confirmed.

### 3.0 Unsupported Expenditures

During the financial year under review, the Fund spent a total of Kshs.22,359,860 on five (5) components as follows;

<b>Component</b>	<b>Amount (Kshs.)</b>
I. Use of Good and Service	10,722,422
II. Compensation of employees	3,137,438
III. Sports	3,500,000
IV. Environment	2,500,000
V. Office furniture and fittings	<u>2,500,000</u>
<b>Total</b>	<b><u>22,359,860</u></b>

However, no documentary evidence in support of the expenditures including procurement records in each of the component was made available for audit review.

In the circumstances, the accountability, propriety and value for money of the Kshs.22,359,860 expenditures could not be confirmed.

### 4.0 Doubtful Procurement of Works

During the financial year under review, the Fund spent Kshs.5,375,000 to procure works for (5) projects as follows;

<b>Project</b>	<b>Amount (Kshs.)</b>	<b>Purpose</b>
Nuu Assistant Commissioner office	800,000	Reconstruction of office destroyed by wind
Nuu Police Post	900,000	Reconstruction of office destroyed by wind
Mwingi Central Borehole equipment	3,000,000	Equipping 5 boreholes each at Kshs.600,000
Ukasi – Sosoma Water Project Pipeline	675,000	Digging of trenches, purchasing and laying of pipes and construction and equipping of water kiosk. Final disbursement for a project costing Kshs.2,375,000.
Wawathi Springs	650,000	Water Piping
<b>Total</b>	<b>5,375,000</b>	

However, no documentary evidence including procurement documents and records were availed for audit verification.

Further, the Fund transferred Kshs.1,500,000 to Nuu police post for construction of staff houses and the works were awarded to a contractor using request for quotation. However, the request for quotation method used in sourcing for the said works exceeded the prescribed threshold provided for use of quotations by all class C entities as required by Section 105(a) of the Public Procurement and Asset Disposal (IPPAD) Act, 2015 and also first schedule of the same category reflected in Public Procurement and Disposal Regulations 2006.

In the circumstances, the accountability, regularity and value for money of the Kshs.5,375,000 and Kshs.1,500,000 expenditures both totaling Kshs.6,875,000 could not be ascertained.

## **5.0 Ghost Projects**

During the financial year under review, the Fund disbursed Kshs.600,000 to Nuu police Post for construction of a toilet and bathroom. However, a physical verification done on 25 May 2018 revealed that none of the projects were existing. Further, the project's status reports, project's bank statements and expenditure returns were not made available for audit verification.

In the circumstances, the occurrence, existence and value for money of the project could be confirmed.

## **6.0 Irregular Contract Award for Mwingi Central NG-CDF Office**

During the financial year under review, the Fund allocated Kshs.11,105,198 for the construction of NG-CDF Mwingi Central Office. The tender was awarded to the second lowest evaluated bidder who had quoted Kshs.10,390,874 instead of the lowest evaluated bidder who had quoted Kshs.8,013,755 contrary to Section 85 and 86 of the Public Procurement and Asset Disposal Act, 2015. This resulted in an avoidable expenditure of Kshs.2,377,119. In addition, no tender evaluation report was availed to show how the winning bidder was arrived at. Further, no letter of award and acceptance was availed for audit verification.

Consequently, it was not possible to ascertain that the Fund got value for money in the Kshs.10,390,874 expenditure.

## **7.0 Unaccounted for Bursary Fund**

During the year under review, the Fund transferred Kshs.40,041,000 to various institutions including Secondary Schools and Tertiary Institutions. However, no acknowledgement by the respective beneficiary institutions through issuance of receipts were availed for audit verification.

Consequently, the regularity and accountability of the expenditure amounting to Kshs.40,041,000 could not be established.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Mwingi Central 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, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

## Other Matter

### 1.0 Budget and Budgetary Controls

During the financial year under review, the Fund approved receipts budget of Kshs.122,125,500 comprised of Kshs.115,991,191 for the year under review and Kshs.6,134,309 brought forward from the previous year and the same was received in full. However, out of the total budget of Kshs.122,125,500, Kshs.121,167,273 (99%) was utilized to fund projects in various sectors within the Constituency as follows;

Item Receipts	Original Budget (Kshs.)	Adjustments (Kshs.)	Final Budget (Kshs.)	Actual on Comparable Basis (Kshs.)	Variance (Kshs.)	Performance (%)
<b>Receipts</b>						
Transfers from CDF Board	115,991,191	6,134,309	122,125,500	122,125,500	6,134,309	95
<b>Total Receipts</b>	<b>115,991,191</b>	<b>6,134,309</b>	<b>122,125,500</b>	<b>122,125,500</b>	<b>6,134,309</b>	<b>95</b>
<b>Expenditure</b>						
Compensation of Employees	3,619,701		3,619,701	3,137,438	482,263	86
Use of goods and services	10,722,422		10,722,422	10,722,422		100
Transfers to Other Government Units	26,171,413		26,171,413	30,671,413	(4,500,000)	115
Other grants and transfers	80,148,908		80,148,908	68,341,000	11,807,908	85
Acquisition of Assets	8,100,000	2,500,000	10,600,000	8,295,000	2,305,000	78
<b>Total Expenditure</b>	<b>128,762,444</b>	<b>2,500,000</b>	<b>131,262,444</b>	<b>121,167,273</b>	<b>10,095,171</b>	<b>92</b>

The residents of Mwingi Central did not therefore get services equivalent to the Kshs.10,095,171 under-expenditure for the year under review. Further, the Fund's budget reflected receipts of Kshs.122,125,500 and expenditures of Kshs.131,262,444 resulting into a deficit of Kshs.9,137,000.

### 2.0 Project Implementation Status

The Kshs.131,262,444 approved expenditure budget for the year under review was apportioned among various sectors within the Constituency namely primary schools, secondary schools, health institutions, sports, roads, security, bursary, emergency projects, administration and committee expenses.

However, respective analysis of the project implementation status was not made available for audit purposes. It was therefore not possible to establish the number of projects completed, ongoing, not started and stalled if any, per each sector together with the total amounts allocated and disbursed for each project.

### **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 applicable basis of accounting unless the management either intends to liquidated the fund 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 of Kenya. 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 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 offering 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 consolidated/ 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 to continue offering 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 of the Fund's activities 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**

**30 July 2018**