

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND- MWINGI NORTH 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 Constituency Development Fund – Mwingi North Constituency set out on pages 5 to 17, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation recurrent and development 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 Constituency Development Fund – Mwingi North 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, 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 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**

#### **1.0 Presentation, Accuracy and Completeness of the Financial Statements**

##### **1.1 Presentation of the Financial Statement**

The International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board requires that related party disclosures and list of projects implemented by the entity be included in the financial statements. However, a review of the financial statements for the year under review revealed that related party disclosures and the list of projects were not included in the financial statements as required.

In the circumstances, the presentation of the financial statements for the year under review did not conform to the International Public Sector Accounting Standards (Cash Basis) reporting template as prescribed by Public Sector Accounting Standards Board.

##### **1.2 Accuracy and Completeness of the Financial Statements**

The financial statements for the year under review reflects a balance of Kshs.5,810,118 in respect to three (3) items while the respective supporting schedules reflect a balance of Kshs.5,452,514 resulting in an unexplained and unreconciled variance of Kshs.357,604 as follows;

<b>Items</b>	<b>Financial Statements (Kshs.)</b>	<b>Supporting Schedules (Kshs.)</b>	<b>Variance (Kshs.)</b>
Compensation of employees	3,236,118	2,960,514	275,604
Other Committee expenses	2,174,000	1,892,000	282,000
Fuel Oil and Lubricants	400,000	600,000	(200,000)
<b>Total</b>	<b>5,810,118</b>	<b>5,452,514</b>	<b>357,604</b>

In addition, Note 11 to the financial statements for the year under review reflected a nil balance in respect to amount due from the Board. However, Annex I of the annexes to the audited 2015/2016 financial statement reflected a balance of Kshs.50,271,105 for the same item resulting in an unexplained and unreconciled variance of Kshs.50,271,105.

Further, the statement of receipts and payment, statement of cash flows and summary statement of appropriation for the financial year under review reflected total expenditures of Kshs.105,747,012, Kshs.94,546,356 and Kshs.105,747,012 respectively. However, a recasting of the figures reflected under castings as follows;

	<b>Total Amount Reflected in the Financial Statements (Kshs.)</b>	<b>Recasted Total Amount (Kshs.)</b>	<b>Variance/Under Casting (Kshs.)</b>
Statement of Receipts and Payments (totals)	105,747,012	106,467,012	<b>(720,000)</b>
Statement of Cashflow (total of payments from Operating activities)	94,546,359	95,266,359	<b>(720,000)</b>
Summary statement of appropriation (total of actual on comparable basis)	105,747,012	106,467,012	<b>(720,000)</b>

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

## **2.0 Unaccounted for Transfers to Primary Schools**

Note 4 to the financial statements reflects Kshs.30,195,000 spent in respect to transfer to other government entities which included Kshs.21,089,000 paid in respect to transfers to primary schools. Documents provided for audit review showed that Kamuwongo Primary School project management committee received

Kshs.1,000,000 (Kshs.400,000 during 2015/16 and Kshs.600,000 during 2016/2017) for renovation of three (3) classrooms.

Contract for renovation of three classrooms which included walling of super structure, roofing structure, plastering and flooring, painting and decoration and veranda was signed on 22 June 2017 at contract sum of Kshs.896,130. However, works on roofing, plastering on two classes, painting on two classes, window panes and gutters at a cost of Kshs.156,150, Kshs.40,500, Kshs.107,200, and Kshs.495,000 respectively all totalling to Kshs.798,850 had not been done as at the time of this audit in May 2018. Further, certificate of practical completion for renovation of the three classrooms was issued on 7 July, 2017 and a final payment of Kshs.200,000 was made on 19 July 2017 even as the above works totalling to Kshs.798,850 was outstanding.

Further, Kshs.1,200,000 was paid to Kiruini primary school for construction of two (2) classrooms. However, a physical verification done on May 2018 revealed that painting works and window panes at cost of Kshs.84,300 and Kshs.136,800 respectively all valued at Kshs.221,100 which was included in the Kshs.1,200,000 had not been done.

In the circumstances, the propriety and value for money of Kshs.796,850 and Kshs.221,100 expenditures both totaling to Kshs.1,019,950 as at 30 June 2017 could not be ascertained.

### **3.0 Project Management Committee (PMC) Bank Balances**

Annex 2 to the financial statements reflects Kshs.986,150 in respect to seventeen project management committee (PMC) bank balances. However, bank reconciliation statements, cash books and bank confirmation certificates were not provided for audit review.

In the circumstances, the PMC bank balances of Kshs.986,150 as at 30 June 2017 could not be confirmed.

### **4.0 Unsupported Irregular Office Rent**

Note 3 to the financial statement reflect Kshs.368,270 in respect to office rent. Review of documents provided revealed that a two (2) year lease agreement starting from 1 May 2013 to 1 May 2015 for office rent at Kshs.15,000 was entered into with the landlord. During the financial year under review, the Constituency paid Kshs.368,270 comprising of Kshs.225,000, Kshs.58,000 and Kshs.85,270 for office rent, waiting room and electricity respectively. However, no documents were made available to show that the lease agreement which had expired on 1 May 2015 was renewed with a revision upwards of office rent from Kshs.15,000 to Kshs.225,000 and with an additional cost of Kshs.58,000 and Kshs.85,270 on waiting room and electricity respectively.

In the circumstances, the propriety, legality and validity of the Kshs.368,270 office rent expenditure as at 30 June 2017 could not be ascertained.

### **5.0 Construction of Building**

Note 6 to the financial statements reflects Kshs.11,200,653 in respect to acquisition of assets which included Kshs.4,500,000 spent on construction of buildings. Records

provided for audit review revealed that the Fund transferred to the project management committee (PMC) Kshs.2,000,000 in the year 2014/2015, Kshs.7,000,000 in the year 2015/2016 and Kshs.4,500,000 in the year 2016/2017 all totaling to Kshs.13,500,000 for the construction of the National Government Constituency Development Office. The respective construction contract was signed on 26 September 2016 at contract sum of Kshs,9,772,160 and a contract period of ten (10) months. In addition, on 18 November 2016 a variation of Kshs.1,995,750 or 20% of the contract sum on substructure works was made raising the contract sum to Kshs.11,767,910. However, the respective site minutes and progress report showing reasons for the variation and constituency committee approval were not provided for audit review. Further, a second contract for construction of a gate, watchman's house, fencing, two (2) door VIP latrines, painting and decorations at a contract sum of Kshs.1,420,000 was awarded to the same contractor on 19 May 2017 resulting in the total contract price of Kshs.13,187,910 which was exclusive of 16% value added tax (VAT) of Kshs.2,089,099 and 3% withholding tax on construction of Kshs.391,805 both totaling to Kshs.2,480,805. No documents were provided showing how the taxes were to be paid.

As at the time of the this audit on 24 May 2018, Kshs.12,012,496 had been paid to the contractor by the project management committee. However, review of the payment certificates revealed that they were not supported by detailed measurements of work done and details and value of materials on sight.

Further, the 10% retention was also not deducted and retained by the project management committee as required by the provisions of the contract. In addition, a physical verification done on 23 May 2018 revealed that the works on internal painting, plumbing works, plastering, fixing of toilet doors, toilets, disabled persons facility, electrical works, soakage area and installing of two (2) 10,000 litres water tanks were still outstanding yet the contract period had lapsed.

In the circumstance, it has not been possible to ascertain the propriety and value for money of the Kshs.12,012,496 expenditure on construction of buildings as at 30 June 2017.

## **6.0 Sports**

Note 5 to the financial statements reflect Kshs.2,663,648 expenditure in respect to sports which included Kshs.1,622,050 for purchase of boots and other accessories, trophies and footballs, uniforms and volley balls. However, the distribution list provided for audit did not indicate the specific items issued and the prices in the quotations were typed implying that they were not from the bidders.

In the circumstances, it was not possible to determine whether the Constituency received value for the Kshs.1,622,050 expenditure as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund- Mwingi North 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 other Key Audit Matters to communicate in my report.

## Other Matter

### 1. Budget Control and Performance

During the financial year under review, the Fund had an approved expenditure budget of Kshs.136,876,494 comprising of Kshs.81,896,552 for the year under review and Kshs.54,979,942 in respect to balance brought forward. However, the statement of appropriation reflected total actual expenditure of Kshs.105,742,012 whose casting had an error as the correct casted total expenditure should have been Kshs.106,467,012 and therefore the resultant under expenditure should have been Kshs.29,909,482 and not the Kshs.31,129,482 as reflected in the statement of appropriation as follows;

Sub head	Current year Final Budget Figures (Kshs.)	Actual Expenditure figures (Kshs.)	Budget Utilization Difference	Budget Absorption %
<b>Recurrent</b>				
Compensation of employees	3,405,931	3,236,118	169,813	95%
Use of goods and services	11,220,000	11,214,366	5,634	100%
Transfer to other government units	51,715,428	30,915,000	20,800,428	60%
Other grants and transfers	58,834,482	49,900,875	8,933,607	85%
Acquisition of Assets	11,200,653	11,200,653	0	100%
	<b>136,376,494</b>	<b>106,467,012</b>	<b>29,909,482</b>	<b>78%</b>

The residents of Mwingi North Constituency therefore did not receive services equivalent to the under expenditure of Kshs.29,909,482 as at 30 June 2017.

### 2. Project Management Implementation

During the year under review, the Constituency Development Fund management did not update the project implementation status report. In the absence of an updated status report, the progress of work on the projects funded during the year under review and their status as at 30 June 2017 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 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 NGCDF- Mwingi North Constituency'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 NGCDF- Mwingi North Constituency'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 NGCDF- Mwingi North Constituency'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 NGCDF- Mwingi North 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 NGCDF- Mwingi North Constituency'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 NGCDF- Mwingi North Constituency'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 NGCDF- Mwingi North Constituency'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**

**17 July 2018**