

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Navakholo Constituency set out on pages 1 to 18, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and 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 paragraph, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Navakholo 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 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 procedures performed, except for the matters described in the Other Matter section of my report, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective manner.

Basis for Qualified Opinion

1. Unconfirmed Value of Works at Kisiwa Technical Institute

Included in transfers to other Government entities balance of Kshs.72,117,043 is Kshs.2,117,043 disbursed by the Fund to Kisiwa Teachers Training College being part-payment of the Fund's contribution towards construction of the Institute. Physical verification revealed that the project was progressing well and expenditure thus incurred was far above what the CDFC had contributed towards the project. The CDF project co-ordinator revealed that the most of the funds spent on the project were provided by the Ministry of Education. However, there was no memorandum of understanding outlining contributions of the Ministry and the Fund or the nature of work the joint funding was supposed to finance. Further, no project file was availed for audit verification to confirm the amount contributed by the Fund to the project as required by NG-CDF Regulations, 2016.

In the circumstance, it was not possible to confirm the accuracy and propriety of Kshs.2,117,043 incurred during the year on transfers to other Government entities.

2. Other Grants and Transfers

Unconfirmed Valuation of Works at Shinoyi Secondary School

Included in the other grants and transfers balance of Kshs.37,837,721 is Kshs.1,500,000 released by the Fund to Shinoyi Secondary School for construction of a laboratory block whose construction was on-going at the time of the audit. However, there were no records in the project file that indicated how the amount was arrived at and utilized.

In the circumstance, it is not possible to confirm the valuation of the works, if any, undertaken through the sum of Kshs.1500,000 disbursed for use at to Shinoyi School.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Navakholo 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 requirements applicable to performing audits of financial statements in Kenya. I believe that the 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 judgement, are of most significance in the audit of financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budget

1.1 Over-expenditure on Committee Expenses

Included in the use of goods and services are committee expenses of Kshs.4,305,850 spent on monitoring and evaluation. However, the budgeted amount for the item was Kshs.2,456,896 thus the disbursement resulted into over-expenditure of Kshs.1,848,954 contrary to the requirements of the National Government Constituency Development Fund Act, 2015 Section 25(9) and 35(2).

1.2 Part Approval of Original Budget by the Board

Contrary to the requirements, the management of NGCDF - Navakholo availed for audit verification an unsigned budget indicating that the Fund was to receive Kshs.81,896,552 from the NG-CDF Board for the financial year 2016/2017. However, the original budget was not approved by the Board and there was no evidence of public participation in identifying the projects to be undertaken during the year. Further, the management provided a Government Finance Statistics (GFS) project code list showing that the Board approved the budget in stages with Kshs.4,094,828 approved on 5/10/2016, Kshs.64,051,724 in 9/1/2017, and the final Kshs.13,750,000 in 16/10/2017. Subsequently, part of the budget was approved after the expiry of the year under review contrary to Section 36 and 38 of the Public Finance Management Act, 2012 which requires the Appropriation Act to be passed by the National Assembly by 30 June every year.

1.3 Statement of Appropriation: Recurrent and Development

Comparison of the budget against actual expenditure for the Financial Year 2016/2017 revealed the following position as reflected in the financial statement:

Receipt/ Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparabl e Basis	Budget Utilisation Difference	% of Utili- sation
Receipts						
Transfers from CDF Board	81,896,551	82,329,578	164,226,130	123,277,855	40,948,275	24
Proceeds from Sale of Assets	-	0	-			
Other Receipts	-	57,000	57,000	57,000	-	
Totals	81,896,551	82,386,578	164,283,130	123,334,855	40,948,275	24
Payments						
Compensation of Employees	3,059,364	-	3,059,364	2,801,703	257,661	8
Use of goods and services	5,257,009	-763,736	4,493,273	7,185,366	-2,692,093	59
Transfers to Other Government Units	33,000,000	56,534,629	89,534,630	72,117,043	17,417,587	19
Other grants and transfers	40,580,178	24,558,685	65,138,864	37,837,721	27,301,143	41
Acquisition of Assets	-	2,000,000	2,000,000	2,000,000	-	
Other Payments – AIA	-	57,000	57,000	-	57,000	-
Totals	81,896,551	82,386,578	164,283,130	121,941,833	42,341,297	25

Material differences between the final budget and actual expenditure were noted under receipts (24%), use of goods and services (59%), transfers to other Government units (19%), and other grants and transfers, 41%. The under-expenditure was attributed to a shortfall of revenue as the Board only disbursed Kshs.121,941,833 out of the final budget of Kshs.164,283,130 leading to a shortfall of Kshs.42,341,297.

As a result Section 43 (b) of the Public Financial Management PFM Act, 2012 which requires the Accounting Officer to ensure that public funds entrusted to their care are properly safeguarded and applied for the purposes only which they were intended and appropriated by the National Assembly was contravened.

2. Internal Control Environment

2.1 Audit Committee and Operation of the Internal Audit Department

The Fund had no audit committee during the year under review as required by Public Financial Management Regulations, 2015 (Section 167(1)). Further, the internal audit department did not have a sufficient number of qualified personnel to audit the projects undertaken by the entity.

2.2 No Independent Assessment of Systems, Controls and Efficiencies

The management of NG-CDFC - Navakholo is yet to undertake a formal risk assessment to identify risks facing the operations of the Fund as required by the Public Finance Management Act Regulation 157 (1) of 2015. Further, adequate internal controls to manage the operations of the Fund have not been established.

3. Project Verification Status

During the year under review, a sample of thirteen (13) projects costing Kshs.33,617,043 were verified on May 2018. The following was their respective status:

	Project Name	Project Description	Amount Kshs.	Status
1	St. Kizito's Lusumu Girls Secondary School	Construction of Dormitory	5,000,000	On-going
2	Namirama Girls High School	Construction of Computer Complex	5,000,000	Completed and in use
3	Chebuyusi Boys High School	Construction of Computer Complex	5,500,000	Completed and in use
4	Kochwa Primary	Installation of Lightening Arrestor	2,500,000	Completed and operational
5	Sisokhe Secondary School	Construction of Girls Dormitory	2,500,000	On-going
6	Kisiwa TTI	Construction of Navakholo TTI	2,117,043	On-going
7	St.Raphael Burangasi Secondary School	Purchase of Land	2,000,000	Funds not yet utilized
8	Natunyi Dispensary	Renovation and Re-roofing of dispensary	2,000,000	Completed but not in use
9	Sisokhe Primary School	Renovation and Re-roofing of 4 classrooms	1,000,000	On-going
10	Siyombe Primary School	Renovation and Re-roofing of 4 classrooms	1,000,000	On-going
11	Weramba Primary School	Construction of 2 classrooms	1,000,000	Completed and in use
12	Buchangu Dispensary	Construction of Maternity wing	1,000,000	On-going
13	Budonga	Construction of Twin Laboratory	3,000,000	On-going
		Total	33,617,043	

Audit verification revealed that some of the projects were not branded as required under the regulations of the Fund.

4. Un-utilised Funds for Purchase of Land - St. Raphael Burangasi Secondary School

Included in transfers to other Government entities balance of Kshs.72,117,043 is Kshs.2,000,000 disbursed by the Fund to St. Raphael's Burangasi Secondary School PMC for purchase of land for the school. Although, reportedly, the landowner has not been paid pending conclusion of land succession issues, he has allowed the school to take possession of the land and construct classrooms on it.

However, the purchase agreement signed between the land owner and the management of NG-CDF- Navakholo Constituency was not presented for audit examination. Further, no bank statements were availed to confirm whether or not funds set aside for purchase of the land were still in possession of the Project Management Committee (PMC). It is not clear how the owner allowed the PMC to initiate the project works before payment was made.

Further, management has not explained why funds were released to the project management committee (PMC) before ownership of the land was formally transferred to the seller. In view of these anomalies, it is not possible to confirm valuation and ownership by the Fund of the piece of land reported to have been purchased through the sum of Kshs2,000,000 disbursed by the Fund.

5. Irregular Purchase of Lands

Included in transfers to other Government entities balance of Kshs.72,117,043 is Kshs.500,000 released by the Fund for purchase of two plots of land for construction of Mukama Primary School and Kshs.1,000,000 for Sipanga Primary School. However, documentation on procurement of the lands as well as the respective valuation reports and title deeds was not availed for audit verification.

In the circumstance, it is not possible to confirm ownership and valuation of the two pieces of land by NGCDF-Navakholo.

6. Poor Workmanship – Construction of Girls' Dormitory at St Kizito Lusumu Girls' Secondary School

Included in transfers to other Government entities balance of Kshs.72,117,043 is Kshs.500,000 disbursed by CDFC to St. Kizito's Girls Secondary for construction of a dormitory. The tender (labour contract only) was awarded to a local firm at a tender price of 20% of the cost of material. Physical verification of the project on 29th May 2018 revealed that the contractor had done 75% of the work. However, the dormitory was poorly done with the newly constructed floor showing cracks. Further, the dormitory envisaged to accommodate 300 beds was erected on seemingly weak columns and would require strengthening so as not to put the lives of its occupants at risk.

In addition, the bricks used were weak and were already gaping at the joints, a clear indication that they were sub-standard.

7. Irregularities in Completion and Renovations of Natunyi Dispensary

Included in transfers to other Government entities balance of Kshs.72,117,043 is Kshs.2,000,000 disbursed by the Fund to Natunyi PMC for completion and renovation of Natunyi Dispensary. The PMC tendered and awarded the tender to a local supplier. However, the Bills of Quantities filed by the winning tenderer had some figures erased by white-out which suggested that the tender figures may have been manipulated in the bidder's favour.

In addition, tender documents submitted by other bidders, the tender and evaluation report, payment vouchers to show how payments out of the PMC account were made, bank statements and certificate of balance were not availed for audit verification. Further, physical verification of the project on 29th May 2018 revealed that the building which was not put to use portrayed signs of poor workmanship at the entrance, a and the veranda, floor and ceiling board. Further, the building was not fenced or secured and was, as a result vandalised after it was handed-over to the NGCDFC - Navakholo in May 2017.

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 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 is aware of the intention to liquidate the Fund or cease its operations. .

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 scepticism 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 cease 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 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 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

27 September 2018