

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Nyeri Town Constituency set out on pages 5 to 17, 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: 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund – Nyeri Town 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 Constituencies Development Fund, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Other Matter section 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Nyeri Town 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 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. There were no Key Audit Matters to communicate in my report.

Other Matter

1.0 Unsupported Bursary Awards and Disbursements

Other Grants and Transfers balance of Kshs.68,863,179 reflected in the statement of receipts and payments for the year ended 30 June 2016, includes Kshs.27,296,633 and Kshs.15,020,583 for Bursary to secondary schools and tertiary institutions respectively, totaling to Kshs.42,317,216. However, no acknowledgement letters/receipts from institutions who received total of Kshs.16,765,320 in bursary awards to confirm the bursaries was received and accounted for. Consequently, it has not been possible to ascertain whether the bursaries awarded reached the intended beneficiaries and were properly accounted for as at 30 June 2017.

2.0 Projects Implementation

2.1 Nyakinyua Primary School

Included in the transfer to other Government entities balance of Kshs.61,189,311 for the year under ended 30 June 2017 is transfer to primary schools balance of Kshs.39,599,311 that includes an amount of Kshs.2,232,595 transferred to Nyakinyua primary school for construction of classrooms. The works involved the construction of two-storied building with eight classrooms which was done in phases and awarded to same contractor as follows:

Financial Year	Budget (Kshs.)	Amount Paid (Kshs.)	Phase
2014/2015	3,470,905	2,400,000	PHASE 1
2015/2016	3,755,350	4,450,995	PHASE 2
2016/2017	2,884,770	2,232,595	PHASE 3
Total	10,111,025	9,083,590	

However, site visit carried out on 3 May 2018, revealed that the eight (8) classroom were incomplete. Further, the following omissions were noted:

- i. No ablution block was constructed to service the new block of classrooms. It appeared this was ignored all together during the planning and design stage.
- ii. The two-storied block had incomplete electrical works.
- iii. The total value of works done to-date as per records maintained by the NG-CDF amounted to Kshs.9,083,590. However, the contracts were awarded through request for quotations method in the various phases instead of open tender method contrary to the Public Procurement and Asset Disposal Act, 2015 and related Regulations which requires that procurement of works of above the threshold of four (4) million should be procured through open national tender. No explanation has been given for this anomaly.

In the circumstances, the propriety and value for money of Kshs.2,232,595 disbursed to Nyakinyua primary school could not be confirmed.

2.2 Unutilized Project - Karia Dispensary

Included in the transfer to other Government entities balance of Kshs.61,189,311 for the year under ended 30 June 2017 as further disclosed under note 17 to the financial statements is transfer to health institutions of Kshs.600,000 that was spent to complete the construction of Karia dispensary staff houses during the financial year. Records further indicated that the project was allocated funds as follows over the year:

Period	Amount Allocated (Kshs.)
2013/2014	2,241,380
2014/2015	350,000
2015/2016	600,000
2016/2017	600,000
Total	3,791,380

However, physical verification of the project progress of works revealed that the project was complete but there were no staff occupying the houses as at the time of this audit in May 2018. No explanation was given for the failure to utilize the facility.

2.3 Proposed Construction of Dining Hall at Gachika Secondary School

Included in the transfer to other Government entities balance of Kshs.61,189,311 for the year ended 30 June 2017 is transfer to secondary schools balance of Kshs.19,470,000 out of which an amount of Kshs.5,000,000 was disbursed to Gachika secondary for construction of a dining hall. The school had been allocated Kshs.4,000,000 in (2014/2015) and Kshs.3,500,000 in 2015/2016 all totaling to Kshs.12,500,000 over a period of three (3) financial years for this project. A review of records further revealed that the construction of classrooms started in 2015/2016 financial year and construction carried out in phases as follows:

Financial Year	Contract Price (Kshs.)	Amount Paid (Kshs.)	Phase
2015/2016	3,583,400	1,828,443	PHASE 1
	2,524,600	1,945,000	PHASE 2
2016/2017	3,620,190	1,850,000	PHASE 3
Total	9,728,190	5,623,443	

However, the following were noted:

- i. Audit review of the project documentation showed that out of the total contracted amount of Kshs.2,524,600 in phase II, construction works amounting to

Kshs.1,279,600 were not implemented as at the expiry of phase II contract duration on 20th April 2017. According to a letter raised by the project Engineer to the Contractor on 22nd March 2017, there was an indication of poor workmanship where columns cast in the first phase were not in alignment with those cast in the second phase. Further correspondent dated 6th July 2017 raised by Nyeri Town CDF to the contractor, indicated that the contractor had breached the contractual terms by not finishing his work within the agreed contract duration of 28th June 2016 to 20th April 2017 with a completion delay of 10 weeks. Further, from the same letter, the contract was terminated and dismissed with immediate effect from the project site.

- ii. Further, another Contractor was awarded the Phase III tender while phase II was still stalled with evidence of poor workmanship. As a result, the contractor was not able to fully implement his contract. Only one certificate of work done dated 18th October 2017 of Kshs.1,850,000 was paid for phase III as evidence of work done in this phase, leaving construction works of Kshs.1,770,190 unimplemented.
- iii. As at the time of audit, it was noted that the project had stalled with no contractor or any building materials on site. Contrary to section 140 of the public procurement and asset disposal act 2015, there were no liquidated damages charged to both contractors for delayed performance and failure to deliver their contractual obligations.

iv Records presented for audit revealed that the value of works done as per the financial year end by the NG-CDF amounted to Kshs.5,623,443 while the total contract price for the project as the same time was Kshs.9,728,190. However, the contracts were awarded through quotations as procurement method in the various phases. This contravened Public Procurement and Asset Disposal Act, 2015 and related Regulations since any procurement of more than four (4) million should be tendered through open national tender. Further, the management has not provided any plausible reasons why the contract was awarded in phases to three (3) different contractors leading to poor handling of the project and probable loss of public funds.

2.4 Proposed Laboratory Renovation at Kihuyo Secondary School

Included in the transfer to other Government entities balance of Kshs.61,189,311 for the year ended 30 June 2017 is transfer to secondary schools balance of Kshs.19,470,000 that includes an amount of Kshs.1,500,000 in addition to Kshs.1,100,000 in 2015/2016 all totaling to Kshs.2,600,000 for the proposed laboratory renovation at Kihuyo Secondary School. The scope of works involved renovation of the laboratory block that included construction of a fume chamber, floor tiles, fixing of windows and window panes, steel door, gas installations, plumbing works, electrical installations and wall painting. However, the actual contract sum paid was Kshs.2,129,200 resulting to over-funding of the project by Kshs.470,800 which was neither explained nor reconciled.

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 continue as a 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 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. 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 continue as a going concern or 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 to continue as a going concern or 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 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

8 January 2019