

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND OL-KALOU 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–Ol Kalou Constituency set out on pages 6 to 30, 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, in all material respects, the financial position of National Government Constituencies Development Fund-Ol Kalou 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 Act, 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 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 – Ol Kalou 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. Except for the matter described in the Other Matter section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Construction of OIKalou NG-CDF offices–Tender No. NYA/NGOLK DF/04/2015/2016

Award of Tender

Included in the acquisition of assets figure of Kshs.16,378,523 as disclosed in note 9 to the financial statements is construction of buildings amount of Kshs.15,555,623 out of which Kshs.15,536,265 was paid to a construction company for construction of Olkalou CDF offices. Records indicate that the company was awarded the tender on 11 May 2016 at a contract sum of Kshs.15,337,710 following an open tendering process. However, no contract agreement signed between the contractor and the CDF was provided for audit verification. Information available revealed that the contractor was issued with a local service order to carry out the works instead of contract agreement. Therefore, the terms of payments and contract duration could not be determined.

Progress of works

A review of progress of works carried out in July 2018 revealed that the percentage of works completed was about 60% against actual amount paid to the contractor of Kshs.15,536,265 or 101% of the contract sum equivalent to value of works certified despite the construction being incomplete. The management has not given justification for the apparent and irregular over payment. Further, according to appraisal report on the project prepared by the Ministry of Public Works officials, some unspecified works had been omitted in the original bill of quantities during the tendering process which require additional funding estimated to be more than Kshs.14,000,000 for the project to proceed to completion. It was however not clear why such significant omissions were not taken into account by the technical department before commencement of works. In addition, the CDF management has not provided explanation for the unsatisfactory handling of the project

Consequently, the legality and effectiveness of the expenditure of Kshs.15,536,265 so far spent on the project as at 30 June 2017 could not be confirmed.

2. Water Projects

Included in the other grants and other payments figure of Kshs.93,043,629 as disclosed in note 7 to the financial statements is water projects amount of Kshs.3,200,000. However, no expenditure returns and other relevant documentation in respect of six (6) water projects which received a total of Kshs.2,200,000 listed below for audit verification:

PV No.	Date	Project Name	Amount (Kshs)	Project Activity
68	10/11/2016	Githunguri Water	200,000	Trench Digging and piping
68	10/11/2016	Manyatta Kidawa Water	300,000	Trench Digging and piping
68	10/11/2016	Bosnia Water	200,000	Trench Digging and piping

68	10/11/2016	Kahuho Water Project	500,000	Buying of pipes and digging of trenches
68	10/11/2016	Munyeki Water Project	800,000	Trench Digging & pipping of intake tank
68	10/11/2016	Mwireri Water Project	200,000	Trench Digging and pipping
		Total	2,200,000	

Consequently, the legality and effectiveness of the expenditure of Kshs.3,200,000 for the year ended 30 June 2017, could not be confirmed.

3. Security Projects

Included in the other grants and other payments figure of Kshs.93,043,629 as disclosed in note 7 to the financial statements is security projects amount of Kshs.10,700,000. However, procurement records such as tender opening, evaluation and award minutes and other expenditure returns were not submitted by the project management committees to the CDF office contrary to Section 43(9) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the legality and effectiveness of the expenditure of Kshs.10,700,000 for the year ended 30 June 2017 could not be confirmed.

4. Failure to Consult Relevant Government Departments on Project Costs and Implementation

During the financial year 2016/2017, the Ol'kalou NG CDF disbursed a total of Kshs.98,839,124 for implementation of various projects. However, contrary to Section 36 (1) and 46(1) of the National Government Constituencies Development Fund Act, 2015, no evidence was provided to confirm that the Project Management Committees and the Constituency Development Fund Committee worked hand in hand with the relevant government departments in coming up with project cost estimates and during project implementation. Further, where some supervision and consultation was done by the Ministry of Public works including construction of the Ol'kalou CDF office, technical capacity appear inadequate and unreliable.

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 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:

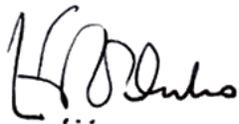
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 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 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

23 October 2018