

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Rabai Constituency set out on pages 5 to 25, 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, except for the effect of the matter 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 Constituencies Development Fund – Rabai 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

Other Pending Payables

According to Note 15.3 to the financial statements, other pending payables were Kshs.6,538,442 which includes an amount of Kshs.4,000,000 for the purchase of land for National Police Service - Rabai Sub-county which was disbursed in October, 2016. Audit verification in May, 2018 revealed that the funds were still lying in the National Government Constituencies Development Fund Committee's bank account since they were transferred to the bank account. Information available indicates that the ownership of the earmarked land was in dispute and is subject of an on-going court case. It is not clear why the funds had not been reallocated to other projects.

In the circumstances, value for money for Kshs.4,000,000 had not been realized and the public may take longer to benefit from the project.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Rabai 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 matter described in the Basis for Qualified Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matters

1.0 Budgetary Controls and Performance

The National Government Constituencies Development Fund - Rabai Constituency overall budget for the year under review was Kshs.103,941,371 against total actual expenditure of Kshs.95,184,159 resulting to under absorption of Kshs.8,757,212 or 8% as summarized below:

Budget line	Final Budget	Expenditure	Unspent Balance	% of Utilization
Compensation of Employees	2,233,588	1,729,820	503,768	23
Use of goods and services	9,446,245	8,126,896	1,319,349	14
Transfers to Other Government Units	36,487,172	36,487,172	0	0
Other grants and transfers	53,856,016	48,317,574	5,538,442	10
Acquisition of assets	918,350	522,697	395,653	43
Other payments	1,000,000	0	1,000,000	100
Total	103,941,371	95,184,159	8,757,212	8

The under-expenditure of Kshs.8,757,212 or 8% implies that public funds were lying idle at the expense of other deserving areas. This may affect delivery of goods and services to the residents of Rabai Constituency contrary to values and principles of public service as provided for under Article 232 (1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

2.0 Project Implementation

According to the project implementation status report as at 30 June 2017, the following three (3) projects with a total budget of Kshs.5,052,000 were not implemented during the period under review:

No.	Name of project	Project Activity	Allocation (Kshs.)
1	Mwele Primary School	Purchase of 105 desks	482,000
2	National Police Service – Rabai	Purchase 1.5 acres land to construct National Police Service offices in Rabai Sub County	4,000,000
3	Ruruma Chiefs office	Construction of 3No. toilets at the chiefs office	570,000
	Total		5,052,000

Non-implementation of development projects affects goods and service delivery to the public and the intended purpose of the projects may not to be realized.

3.0 Project Inspection

Audit inspection of five (5) projects with a total value of Kshs.11,391,379 during the month of May 2018 indicated the following state of affairs of the following specific projects:

	Name of Projects	Activity	Project Allocation	Observations
1	Isaac Nyundo Primary School	Construction of an administration block	1,991,379	Audit inspection of work done against the bills of quantities revealed that the skirting on the floor was not done.
2	Kajiwe Primary School	Construction of 3no. classroom	3,900,000	Cracks on classroom walls
3	Chiferi Secondary School	Construction of 2no. classrooms	2,700,000	Audit inspection of work done against the bills of quantities revealed the classroom had 10 windows instead of 14 windows as per bills of quantities.
4	Kambe/Ribe ACC's office	Construction of office	1,900,000	Audit inspection of work done against the bills of quantities revealed the following: <ul style="list-style-type: none"> • The ceiling was made of plywood instead of ceiling board • There were cracks on the walls. • The floor had no skirting. • The roof had 80 iron sheets instead of 92 iron sheets as per bills of quantities.
5	Mbwaka Primary School	Construction of 1no. classroom	1,300,000	Audit inspection of work done against the bills of quantities revealed the following: <ul style="list-style-type: none"> • The floor had no skirting

				<ul style="list-style-type: none"> • Electrical works were not done • The roof had 52 iron sheets instead of 115 iron sheets as per bills of quantities.
	Total		11,791,379	

The above variations were not supported with site meeting minutes approving the changes. It was therefore not clearly explained who authorized the changes. The above scenario also casts doubt on the effectiveness of the project monitoring and evaluation carried out by the National Government Constituency Development Fund Committee (CDFC). As a result, it has not been possible to ascertain if value for money on the projects has been obtained.

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 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'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 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 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 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'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.

A handwritten signature in black ink, appearing to read 'E. Ouko', with three dots below the signature.

FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

11 July 2018