

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Rangwe Constituency set out on pages 5 to 33, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Rangwe 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 do not comply with the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Inaccuracies in Financial Statements

1.1 Statement of Receipts and Payments

- (i) The following differences were noted between several balances reflected in the statement of receipts and payments for the year under review and the comparative balances reflected in the statement for 2015/2016 as shown below:

Item	Statements of Receipts and Payment (Audited) 2015-2016 Kshs.	Comparative Figures 2016-2017	Difference

		Kshs.	Kshs.
Acquisition of assets	1,000,000	-	1,000,000
Total payments	91,685,993	90,817,444	868,549
Surplus/deficit	19,122,492	19,991,041	(868,549)
Other grants and other payments	37,281,753	39,161,990	(1,880,237)
Net cash flows from Investing Activities	-	15,900,740	15,900,740
Net Increase in Cash and Cash Equivalents	19,122,492	17,018,812	2,103,680
Compensation of Employees note 2	1,799,428	1,315,840	483,588
Bursary – Secondary School	15,122,344	15,253,795	(131,451)
Security	850,000	2,598,786	(1,748,786)
Pending Staff Payables	567,000	1,741,140	(1,174,140)
Committee Allowance	5,203,000	-	5,203,000
Utilities, supplies and services	2,151,812	7,354,812	(5,203,000)
Balance Brought Forward (Bank Accounts) note 7	-	28,288,472	(28,288,472)

In addition, Note 2 and Note 5 to the financial statements reflect comparative figures of Kshs.1,315,840 and Kshs.39,161,990 respectively. However the balances differ with respective account balances shown in the statement of receipts and payment on compensation of employees and other grants and transfers respectively.

(ii) The following differences were noted between the financial statements and ledger balances:

Item	Financial Statements Kshs.	Ledger Balance Kshs.	Difference Kshs.
Compensation of Employees	1,396,580	1,470,180	(73,600)
Use of Goods and Services			
Utilities, Supplies and Services	6,688,000	6,095,277	592,723.
Office and general Supplies and Services, Other Operating Expenses and	5,682,835	2,262,812	3,420,023

Routine Maintenance Vehicles			
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The differences were not explained and as a result the accuracy of the financial statements cannot be confirmed.

1.2 Incorrect Assets Balances

Included in the financial statements under Annex 3 is an aggregate fixed assets balance of Kshs.16,485,286 as at 30 June 2017 along with its comparative balance of Kshs.15,260,280 as at 30 June 2016. However, the certified financial statements for the year 2015/2016 reflected a closing fixed assets balance of Kshs.16,260,286. As a result, the opening balance for fixed assets varies by Kshs.1, 000,006 from the audited balance for the previous financial year. .

In view of these discrepancies, the accuracy and completeness of the fixed assets balance in the financial statements as presented as at 30 June 2017 cannot be confirmed.

1.3 Budget Adjustments in the Statement of Appropriation

The statement of appropriation includes a balance of Kshs.16,345,444 being unspent funds under transfers to other Government units rolled over from the previous (2015/2016) financial year. However, records examined during the audit indicated that projects worth Kshs.32,321,425 rolled-over from the 2015/2016 financial year were implemented in the year 2016/2017. , budget information in the statement of appropriation is misstated by Kshs.15,975,981.

Consequently, the accuracy of the sources of funds for the year under review, and of the financial statements in general, cannot be confirmed.

1.4 Cash and Cash Equivalents

Included in the financial statements under Note 6 is a cash and cash equivalents balance of Kshs.301,550 . In addition, the bank reconciliation statement presented for audit revealed that an amount of Kshs.336,116 reflected as a reconciling item which however has not been explained. Further, examination of bank reconciliation statements for the month of December 2016 revealed that cheques totaling Kshs.5,126,401 listed as un-presented as at 31 December 2016 that were not carried forward to the January 2017 bank reconciliation statement and yet they were not cleared by the bank in that period.

Consequently, the accuracy and validity of the bank balances cannot be confirmed.

2. Pending Bills

Included in the financial statements under Note 8 are pending bills totaling Kshs.1,741,140 which include a salary arrears balance of Kshs.411,240 and staff

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gratuity balance of Kshs.1,329,900. However, the names of the respective persons entitled to the two balances have not been disclosed. In addition, only Kshs.301,550 was in the bank account of the Fund as at 30 June 2017 against pending bills totaling to Kshs.1,741,140. Clearly, the cash was not enough to settle the liabilities of NGCDF-Rangwe.

No plausible explanation has been provided by management why they committed more expenditures than their allocations during the year under review.

3. Unsupported Goods and Services Ledger Balance

The ledger balance for office and general supplies and services, routine maintenance and other operating expenses totaling to Kshs.1,926,812 as at 30 June 2017 included an amount of Kshs.385,222 whose payment vouchers were not presented for audit review.

Consequently, the propriety of the expenditure of Kshs.385,222 cannot be confirmed.

4. Unconfirmed Expenditure at Mawego Technical Training Institute

Included in the financial statements under Note 4 is a transfers to other government entities balance amounting to Kshs.62,212,804 which includes transfers to tertiary institutions of Kshs.10,000,000 paid to Mawego Technical Training Institute as co-funding for construction of Rangwe Technical Training Institute. However, the Institute did not submit expenditure returns such as bank statements, payment vouchers and certificates to the constituency office detailing how the funds were utilized.

Consequently, the occurrence and propriety of the expenditure of Kshs.10,000,000 cannot be confirmed

5. Unconfirmed Expenditure on Construction of Deputy County Commissioner (DCC) Residence

Included in the financial statements under Note 5 are other grants and other payments of Kshs.51,825,747 which include security projects amounting to Kshs.9,751,464 out of which one project was allocated two million shillings for the fitting, plastering and painting of the Deputy County Commissioner's (DCC) residence. However, a sum of Kshs.2,651,464 was disbursed to the project during the year. A local company was paid Kshs.1,900,000 out of the disbursement of Kshs.2,651,464 for renovating the residence. However, Rangwe Constituency tender evaluation committee meeting held on 25 January 2016 awarded the contract at Kshs.852,807 leading to an overpayment of Kshs.1,047,193. Management has not availed Project Management Committee (PMC) and bank statements to confirm receipt and accountability of the funds disbursed and further, the payment was not supported with bills of quantities and certificates showing executed works.

In view of these anomalies, the propriety of the expenditure of Kshs.1,900,000 and unutilized balance of Kshs.751,464 cannot be confirmed.

6. Missing Project Management Committees Returns

Included in the other grants and transfers balance of Kshs.51,825,747 is an amount of Kshs.12,867,088.90 disbursed to project management committees that did not however, submit returns to the Constituency Office as required under Section 38 of the National Government Constituencies Development Fund Act , 2015.

In the absence of expenditure returns, the occurrence and measurement of the expenditure totaling Kshs.12,867,089 disbursed to Project Management Committees cannot be confirmed.

7. Unvouched Emergency Expenditure

Included in the financial statements under Note 5 are other grants and transfers of Kshs.51,825,747 which include emergency projects of Kshs.4,920,000. However, examination of cash book and payment vouchers made available disclosed that emergency expenditure amounting to Kshs.2,750,000 was omitted from the ledger. The expenditure related to purchase of building materials and assorted food stuffs for victims of very strong winds that reportedly engulfed sections of the Constituency and damaged homesteads leaving many homeless. However, there was no report from the relevant arm of government about this disaster. Further, some of the items purchased had not been signed for by the beneficiaries contrary to Section 8(3) of National Government Constituencies Development Fund Act, 2015. Consequently, the validity of the expenditure totaling s Kshs.2,750,000 cannot be confirmed.

8. Purchase of Untitled Land and Building for Achego Primary School

Included in the financial statements under Note 4 are transfers to other government entities of Kshs.62,212,804 which include transfers to primary schools of Kshs.45,912,804, whereby Achego Primary School received a total of Kshs.5,600,000 for purchase of land and construction of seven classrooms. The project management committees bank account showed that the contractor was paid Kshs.5,600,000 for construction of seven classrooms and purchase of land. The land vendor was paid Kshs.560,000 for unspecified size of land vide agreement dated 4 February 2017. In addition, documents on procurement of the piece of land were not filed in the project file. Further, the title deed for the land was not made available for audit review.

In the absence of key records, it is not possible to confirm whether the Fund obtained value for money on the expenditure of Kshs.5,600,000 incurred on the project and whether legal title to the land bought was transferred to the Fund by the seller.

9. Unconfirmed Bursary Disbursements

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Included in the financial statements under Note 5 are other grants and payments totaling Kshs.51,825,747 which include total transfers of Kshs.31,719,367 disbursed from the Constituency bank account to the Rangwe NG-CDF bursary fund during the year to be managed by a bursary sub-committee. The bursary committee did not avail bank statements, cash book and minutes to show how the funds were disbursed to the beneficiaries. However, from the bursary lists made available for audit verification, only a total of Kshs.8,112,545 was disbursed to beneficiaries in the eleven locations of Rangwe Constituency, leaving a balance of Kshs.23,606,822 unaccounted for.

In the absence of records, the occurrence and accuracy of expenditure totaling Kshs.23,606,822 reported to have been incurred on bursaries cannot be confirmed.

10. Unsupported Funds not Spent

Included in the financial statements under summary statements of appropriation are adjustments (unspent funds for 2015/2016) of Kshs.47,410,964 which were however not explained.

Consequently, the accuracy and the validity of the balance of Kshs.47,410,964 cannot be confirmed.

11. Unresolved Prior-year Issues

During the year under review, the Fund did not resolve all the issues highlighted for corrective action in the audit report for the previous financial year. This is contrary to Public Sector Accounting Standards Reporting Template that requires the audited entity to report on follow-up of unresolved audit issues carried in the previous year's audit reports.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund - Rangwe 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 adverse opinion

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of financial statements. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Unapproved Use of Goods and Services Expenditure

The expenditure of Kshs.5,682,835 reported in Note 3 of the Financial Statements as having been incurred on office and general supplies, other operating expenses and routine and maintenance during the year but the approved budget allocation for these items in the year under review was Kshs.2,379,038 leading to an over-expenditure of Kshs.3,303,797 which was incurred without approval contrary to Section 51 (2) of the Public Finance Management Regulations 2015 that stipulates that commitments for goods and services shall be controlled against spending and procurement plans approved by the responsible Accounting Officer, based on allocations and allotments from approved budgets.

2. Unspent Budget Allocation for the Elderly

The statement of appropriation includes compensation of employees budget of Kshs.2,400,000 but the approved estimates reflect a total of Kshs.4,505,720 resulting to a variance of Kshs.2,105,720. In addition, relative to the approved budget of Kshs.4,505,720, the financial statements reflect actual spending of Kshs.1,396,580 resulting to an under-expenditure of Kshs.3,109,140. The under-expenditure mainly resulted from an allocation of Kshs.2,400,000 meant for payment of National Hospital Insurance Fund membership fees for elderly persons but the allocation was not spent in totality.

In view of the under expenditure, the needy elderly persons in Rangwe did not wholly enjoy health insurance and medical services planned for their use during the year under review.

3. Project Not in the Approved Estimates

Included in the financial statements under Note 4 are transfers to other government entities amounting to Kshs.61,212,804 which include transfers to primary schools of Kshs.45,912,804 out of which Kshs.3,000,000 was disbursed to God Pundo Primary School for construction of classrooms and yet the project was neither in the approved estimates of 2015/2016 or the year under review. This was contrary to Section 28 (1) of NGCDF Act, 2015 which states that the list of proposed constituency projects shall be submitted to the Board before the end of the month of February in each year or in such other month as may be determined by the Cabinet Secretary in order to ensure timely inclusion of projects in the annual Government budget of a particular financial year. In addition, the project file was not made available for audit verification.

Consequently, the management of NGCDF-Rangwe Constituency breached regulations on allocations of funds.

4. Poor Workmanship in Construction of Dormitory at Kwoyo Kochia Secondary

Included in the financial statements under Note 4 are transfers to other government entities which include transfers totaling Kshs.6,300,000 made to secondary schools and which in turn included a sum Kshs.1,200,000 transferred to Kuoyo Kochia Secondary School for construction of a dormitory block.

Physical verification of the works revealed that the works were not done in a satisfactory manner and as a result, the clerk of works recommended that they be demolished. In addition, the contractor raised an invoice of Kshs.3,033,989, without a certificate from an engineer to support the expenditure. This was contrary to Section 72 (1) Public Finance Management Act, 2015.

Consequently, the funds amounting to Kshs.1,200,000 spent on construction of the demolished dormitory was all lost.

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 intends to liquidate the Fund or to cease operations or have no realistic alternative but to do so.

Management is also responsible for 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 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

12 October 2018