

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SAKU 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 - Saku Constituency set out on pages 6 to 28, 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 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 section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Saku 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 the National Government Constituencies 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 the 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

1.0 Unaccounted for Bursaries

Note 7 to the financial statements for the year under review reflects bursaries totaling to Kshs.21,891,650 comprising of Kshs.7,824,000 and Kshs.14,067,650 to tertiary institutions and secondary schools respectively. However, a verification of the respective disbursement records revealed that tertiary institutions acknowledged Kshs.610,000 out of Kshs.7,824,000 disbursed leaving a balance of Kshs.7,214,000 unacknowledged while secondary schools did not acknowledge their total disbursement of Kshs.14,067,650 and therefore the total un-acknowledged bursaries amounted to Kshs.21,281,650.

In the circumstances, the propriety and validity of the expenditure on bursaries to both Tertiary institutions and Secondary schools totaling to Kshs.21,281,650 could not be confirmed.

2.0 Irregular Committee Expenses

Note 5 to the financial statements for the year under review reflects committee expenses balance of Kshs.5,261,980. However, records maintained by the Fund indicated that the committee held 72 meetings during the year under review exceeding the statutory limit of 24 meetings by 48 meetings.

In the circumstances, the propriety and validity of the Kshs.5,261,980 expenditure as at 30 June 2017 could not be confirmed.

3.0 Voidable Purchase of Sports Equipment and Apparel

Note 7 to the financial statements for the year under review reflects an expenditure of Kshs.1,036,200 on sports activities. A review of the supporting documents however, revealed that there was no project management committee in place to run the activities but instead the payments were made to the Fund Account Manager while the National Government Constituencies Development Fund Committee (NG-CDFC) acted as the Project Management Committee (PMC).

In the circumstances, Kshs.1,036,200 expenditure as at 30 June 2017 is voidable.

4.0 Emergency Projects

Note 7 of the notes to the financial statements for the year under review reflects an emergency projects balance of Kshs.4,422,040 which included Kshs.896,200 spent on projects which did not meet the threshold of an emergency as defined under Section 8(3) of the National Government Constituencies Development Fund Act, 2015 as follows;

Payee	Description	Amount (Kshs.)
Karare Mixed Secondary school	Payment for electrification of the Administration block	170,000
Karare Primary school	Payment for furniture supplied	299,000
Japhet Ngui	Being surrender of imperest	190,000
Japhet Ngui	Being surrender of imperest	150,000
Nasmi Enterprise	Payment of supply of building materials	87,200
TOTAL		896,200

In the circumstances, the propriety of the Kshs.896,200 expenditure on emergency projects as at 30 June 2017 could not be confirmed.

5.0 Construction of a Maternity Ward at Hula-Hula Dispensary

Note 6 to the financial statements reflects transfers to other government entities of Kshs.60,192,708 which includes a balance of Kshs.2,636,000 in respect to transfers to Health Institutions. However, the respective supporting documents showed a total expenditure of Kshs.2,795,180 paid for the construction of a maternity ward at Hula-Hula dispensary leading to an unexplained over expenditure of Kshs.159,180.

Perusal of the contract award documents revealed that the contract was awarded to Nale Investment Ltd of P.O Box 404 Marsabit at a contract sum of Kshs.5,295,180 on 30 July 2015 and was to take a duration of twelve (12) weeks from the date the contract

was signed. However, there was no project handing over minutes while Certificate of completion was issued on 15 Dec 2016, four months after the payment was made. Further, physical inspection carried out on 16 May 2018 revealed that the project was complete but was not in use.

In the circumstances, the accuracy, regularity and value for money for the expenditure amounting to Kshs.2,795,180 could not be confirmed.

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

Other Matter

1.0 Budgetary Control and Performance

The combined summary statement of appropriation reflected an original budget of Kshs.81,896,552. However, the Fund received Kshs.91,728,612 which included Kshs.50,780,335 relating to the financial year 2015/2016 but received in the year under audit and Kshs.40,948,277 for the year 2016/2017. The Fund did not receive Kshs.40,948,275 of the sum of Kshs.81,896,552 budgeted for the year. Further, the combined summary statements of appropriation and the statement of receipts and payments reflected receipts of Kshs.115,061,068 and Kshs.91,728,612 respectively resulting into an unexplained and unreconciled variance of Kshs.23,332,456. In addition, the statement of receipts and payments reflects receipts of Kshs.91,728,612 and payments of Kshs.109,350,464 resulting to a deficit of Kshs.17,621,852.

In the circumstances, it was not possible to ascertain how the Fund financed the Kshs.17,621,852 deficit as at 30 June 2017.

2.0 Project Implementation Status

The Fund had planned to implement 34 projects during the year under review. However, 6 projects worth Kshs.8,900,000 had not started while 15 projects with a total cost of Kshs.23,024,828 were ongoing and only 13 projects worth 47,820,000 had been completed as analyzed below;

Project Status	Sector	Amount Allocated (Kshs.)	Amount Disbursed (Kshs.)	No. of Projects

Completed	Education	27,320,000	10,039,788	12
	Bursary	20,500,000	20,500,000	1
	Sub Total	47,820,000	30,539,788	13
Ongoing	Education	18,730,000	4,300,000	13
	Emergency	4,094,828	2,193,530	1
	Others	200,000	0	1
	Sub Total	23,024,828	6,493,530	15
Not Started	Education	1,000,000	0	1
	Security	4,900,000	0	3
	Sports	1,000,000	0	1
	others	2,000,000	0	1
	Sub-Total	8,900,000	0	6
Grand Total		79,744,828	37,033,318	34

The residents of Saku Constituency did not therefore get promised and expected services equivalent to Kshs.8,900,000 being the budgeted for but unimplemented projects as at 30 June 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 continue as a going concern, 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 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 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 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

17 July 2018