

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Shinyalu Constituency set out on pages 1 to 29, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and 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 matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Shinyalu 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 (Accrual Basis) and comply with Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Other Matter section of my report, 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 manner.

Basis for Qualified Opinion

1. Unpresented Cheques

As at 30 June 2017, there were unpresented cheques totaling Kshs.6,573,779 all of which were stale but had not been reversed in the cash book.

In the circumstance, the cash book and bank balance of Kshs.6,573,779 did not disclose the correct cash position of NGCDF- Shinyalu as at 30 June 2017.

2. Use of Goods and Services

2.1 Committee Expense variance

Included in the use of goods and services of Kshs.9,932,281 is Kshs.3,241,023 incurred on committee expenses. However, the balance does not tally with the item's

aggregate balance Kshs.3,706,000 derived from payment vouchers resulting to a variance of Kshs.464,977 as shown in the table below:

Date	P.V No.	Schedule Kshs.	Payment Vouchers Kshs.	Variance Kshs.
27/07/2016	11	388,000	400,000	-12,000
	32	303,000	320,000	-17,000
24/11/2016	47	276,730	320,000	-43,270
28/12/2016	59	216,000	355,000	-139,000
28/12/2016	57	354,000	410,000	-56,000
3/1/2017	84	489,000	510,000	-21,000
30/3/2017	96	216,000	231,000	-15,000
6/7/2017	125	434,773	500,000	-65,227
23/06/2017	127	285,260	340,000	-54,740
23/06/2017	128	278,260	320,000	-41,740
Total		3,241,023	3,706,000	-464,977

No plausible explanation has been provided by management for the discrepancy.

2.2 Unsupported Expenditure

Payment vouchers totaling to Kshs.312,000 shown below were not made available for audit verification.

Item	Date	Payee	P.V No	Amount Kshs.
Hospitality, Supplies and Services	30/3/2017	Robert Nyaundi	93	4,000
Hospitality, Supplies and Services	7/6/2017	Robert Nyaundi	110	8,000
Hospitality, Supplies and Services	23/6/2017	Robert Nyaundi	127	50,000
Fuel, Oil and Lubricants				250,000
Total				312,000

In the circumstance, the occurrence, accuracy, validity and propriety of the expenditures totaling Kshs.9,932,281 incurred on use of goods and services during the year under review cannot be confirmed.

3. Failure to Provide Expenditure Returns on Environmental and Agricultural Projects

Included in the other grants and transfers balance of Kshs.74,448,161 is Kshs.1,000,000 reportedly incurred on environmental and agricultural projects. However, no expenditure returns were availed for audit verification to confirm how the monies were utilized and accounted for.

In the absence of the returns, it is not possible to confirm the occurrence, validity and valuation of the expenditure amounting to Kshs.1,000,000 reported to have been incurred on environmental and agricultural projects during the year under review.

4. Uninspected and Certified Sports Items

Included in the other grants and transfers balance of Kshs.74,448,161 is expenditure amounting to Kshs.414,500 incurred on assorted sports items procured by the Fund from a local supplier. However, there was no inspection report or certificate issued to confirm that the goods delivered were of the right quality and quantity.

In the circumstance, the valuation and propriety of the expenditure of Kshs.414,500 incurred on other grants and transfers during the year under review cannot 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 - Shinyalu 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 requirements applicable to performing audits of financial statements in Kenya. I believe that the 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 Key Audit Matters to communicate in my report.

Other Matter

1. Budget Analysis

The Fund's approved budget reflected receipts of Kshs.200,681,983, with Kshs.118,785,431 of the balance being brought forward from 2015/16, but only received in Kshs.159,733,708 as shown below. In addition, the approved expenditure budget was for Kshs.200,681,983 but actual expenditure Kshs.154,060,185 resulting on under-expenditure of Kshs.46,621,798. However, in five components namely compensation of employees, use of goods and services, transfers to other government units, other grants and transfers and acquisition of assets had unexplained unfavorable variances of between 32% and 79% as in the table below:

Receipt/Expense Item	Original Budget Kshs.	Adjustments Kshs.	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Budget Utilization Difference Kshs.	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						

Transfers from CDF Board	81,896,552	118,785,431	200,681,983	159,733,708	40,948,275	79
Total	81,896,552	118,785,431	200,681,983	159,733,708	40,948,275	79
Payments						
Compensation of Employees	977,221	1,944,006	2,921,227	929,803	1,991,424	32
Use of goods and services	6,393,468	6,226,472	12,619,940	9,932,281	2,687,659	79
Transfers to Other Government Units	32,800,000	52,653,000	85,453,000	66,753,000	18,700,000	78
Other grants and transfers	41,725,863	55,961,953	97,687,816	74,448,161	23,239,655	76
Acquisition of Assets	0	2,000,000	2,000,000	1,996,940	3,060	99.8
Total	81,896,552	118,785,431	200,681,983	154,060,185	46,621,798	77

Management has not provided a plausible explanation for the under-expenditure.

2. Transfers to Other Government Units

2.1 Poor Implementation of Projects – Madioli Primary School

Included in the transfers to other Government units balance of Kshs.66,753,000 reflected in the statement of receipts and payments is kshs.1,000,000 disbursed to Madioli Primary School for construction of two standard classrooms. However, physical verification procedures conducted on the project revealed that the newly completed floor had pot holes in most of the areas, walls were poorly done and dirty, window glasses were broken or missing in some places and external walls were not completed. No explanation has been provided by management for the poor workmanship.

3. Undisclosed Scope of Projects and Poor Quality Works

Included in the other grants and transfers balance of Kshs.74,448,161 is Kshs.3,800,000 incurred on security projects implemented by the Fund in various Wards of the Constituency during the year under review. However, no bills of quantities were availed to show the scope of the projects.

In addition, works on Virhembe Police Post, contracted at a price of Kshs.891,379, and which was fully paid for and reported as complete and in use, had no status report and was not operational. Further, the works were poorly done and the walls were not plastered.

In view of the poor workmanship evident and failure to disclose the scope of works, it is not possible to confirm that value-for-money was obtained from the investment of Kshs.891,379 spent on the project.

4. Missing Records on Procurement of Motor Vehicle

The acquisition of assets balance of Kshs.1,996,940 reflected in the statement of receipts and payments for the year under review was incurred on procurement of a

motor vehicle. However, documentation on the expenditure and the fixed assets register were not availed for audit verification.

Consequently, it is not possible to confirm whether the vehicle was procured competitively and value-for-money was obtained on its purchase.

5. Project Implementation and Management

The Fund had budgeted to implement a total number of 65 projects valued at Kshs.87,275,017. However, the project implementation report indicates that only 24 projects valued at KShs. 23,078,465 had been completed as at 30 June 2017 while 41 projects valued at Kshs.64,196,552 were ongoing as outlined below:

Sector/Status	Budget		Completed		On going	
	No.	Kshs.	No.	Kshs.	No.	Kshs.
Sports	1	1,637,931	1	1,637,931	-	-
Primary Schools	40	28,000,000	7	2,500,000	33	25,500,000
Secondary Schools	10	7,400,000	5	3,100,000	5	4,300,000
Roads	2	3,376,965	2	3,376,965	-	-
Environment	1	1,637,931	-	-	1	1,637,931
Administration	1	4,913,793	1	4,913,793	-	-
M & E	1	2,456,897	1	2,456,897	-	-
Bursary	1	28,663,793	-	-	1	28,663,793
Emergency	1	4,094,828	-	-	1	4,094,828
Security	7	5,092,879	7	5,092,879	-	-
Total	65	87,275,017	24	23,078,465	41	64,196,552
% Implementation over Budget			37	26	63	74

In view of the foregoing, the Fund did not achieve its objectives for the year under review and thus failed to deliver all the services expected by the Shinyalu constituents.

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 management intends to liquidate the Fund or 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 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 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

6 November 2018