

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND- SIRISIA 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(NGCDF)- Sirisia Constituency set out on pages 6 to 20, which comprise the statement of financial 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 effects 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- Sirisia 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 section 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

1. Low Disbursement of Funds by the NGCDF Board

Included in the transfers from NGCDF Board under the statement of receipts and payments is Kshs.40,948,277 received during the year against the approved budget allocation of Kshs.81,896,552 resulting into a disbursement deficit of Kshs.40,948,275 equivalent to 50% of the budget.

The low disbursement of funds which obviously constrained ability of the Fund management to provide required services, was not explained by the Board.

2. Irregularities in Implementation of Projects

Included in transfers to other government entities balance of Kshs.16,100,000 reflected in the statement of receipts and payments are remittances to various projects through the respective Project Management Committees (PMCs), However, the following anomalies were noted in relation to the transfers :

- (i) Chebikutumi Primary School was allocated Kshs.1,000,000 for the construction of two(2) classrooms. The tender opening and award minutes indicate that the tenders were combined into one contrary to the Public Procurement and Assets Disposal Act, 2015. Further payments made to the respective contractors were not supported with completion certificates and further, retention monies were,contrary to government financial regulations, not withheld.
- (ii) Tembelela Primary School was allocated Kshs.1,000,000 for construction of two classrooms. A local company was awarded the contract at Kshs.1,243,517. However, the evaluation process lacked clarity as seven evaluators highlighted material discrepancies upon evaluating the tender. Furthermore, professional opinion on the tenders was not provided as required by the Public Procurement and Assets Disposal Act, 2015 and further, no retention monies were withheld.
- (iii) Sitabicha Primary School was allocated Kshs.1,000,000 for construction of two(2) classrooms. A local company was awarded the contract at Kshs.1,296,841. However, the tender was managed by the CDF instead of the PMC. Furthermore, the PMC did not provide works certificates for Kshs.950,000 paid to the contractor while tender opening and evaluation minutes were combined into one.
- (iv) Mikhuyu ACK Primary School was allocated Kshs.1,000,000 for construction of two (2) classrooms. A local company was awarded the contract at Kshs.1,285,355. The tender was done by the CDF instead of the Project Management Committee as required.
- (v) Kamunyongole Primary School was allocated Kshs.900,000 for completion of 7 classrooms. A local company was awarded the contract at Kshs.1,646,353. The tender was managed by the CDF instead of the PMC. Furthermore, the PMC did not present works certificates for audit verification while the opening and evaluation minutes were combined together. The PMC did not provide evidence of a professional opinion having been made on the tenders as required by the Public Procurement and Assets Disposal Act, 2015.

Consequently, the propriety and completeness of these expenditures 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- Sirisia 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, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

During the year under review, the Sirisia-NGCDF spent Kshs.49,552,304 against its budget amounting to Kshs.150,563,806 resulting to under-absorption of Kshs.91,024,597 or 54.54% as highlighted below:

Receipt/Expense Item	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Budget Utilisation Difference Kshs.	% of Utilisation
Receipts				
Transfers from CDF Board	91,024,597	49,576,279	41,448,318	54.50%
Totals	91,024,597	49,576,279	41,448,318	54.50%
Payments				
Compensation of Employees	3,573,304	2,050,575	1,522,729	57.39%
Use of goods and services	8,720,489	7,396,464	1,324,025	84.82%
Transfers to Other Government Units	36,850,000	16,100,000	20,750,000	43.69%
Other grants and transfers	30,375,907	14,479,185	15,896,722	47.67%
Acquisition of Assets	7,300,000	5,811,000	1,489,000	79.60%
Other Payments	4,204,897	3,715,080	489,817	88.35%
Totals	91,024,597	49,552,304	41,472,293	54.44%

Consequently, the Sirisia-NGCDF performed poorly in absorbing its budget and thus did not achieve its project completion targets and could therefore not provide its constituents with all the services planned and budgeted for the year ended.

2. Failure to Monitor and Evaluate Projects

The Fund had planned to implement various projects/programmes through PMCs during the financial year under review. However, management did not avail for audit verification any monitoring and evaluation reports on projects implemented for during the year. .

Consequently, it has not been possible to confirm that the CDF achieved its projects completion targets and it provided its constituents with all the services planned and budgeted for the year under review.

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

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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/ 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

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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

13 July 2018