

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SUNA EAST 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 - Suna East Constituency set out on pages 5 to 29, which comprise the statement of financial assets as at 30 June 2017, statement of receipts and payments, statement of cash flows and summary statement of appropriation 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.

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 - Suna East 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 Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229 (b) of the Constitution, except for the matter described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, 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 way.

Basis for Qualified Opinion

1. Unexecuted Works at Rabuor Dispensary

Included in transfers to other government entities of Kshs.51,823,343 is Kshs.2,050,000 reportedly incurred in respect of various works at health institutions including Kshs.600,000 incurred in respect of plastering, fitting and painting of staff houses at Rabuor Dispensary. However, project verification revealed that no work was done.

Consequently, the transfers to other government entities balance of Kshs.51,823,343 is not fairly stated and further, no explanation has been provided by management as to how the funds earmarked for the project were expended.

2. Unexplained Adjustment in Summary Statement of Appropriation

The summary statement of appropriation indicates an original budget of Kshs.81,896,552 and an adjustment of Kshs.30,499,580 that raised the final budget to Kshs.112,396,132. However, at the beginning of the year under review on July 1

2017, the Fund had a bank balance of Kshs.54,049,438 rolled over from 2015/2016. The management did not provide schedules of projects earmarked for implementation from the funds rolled over from the prior year.

Consequently, the accuracy of the summary statement of appropriation cannot be confirmed.

3. Unconfirmed Project Management Committee (PMC) Bank Account Balances

The financial statements under Annex 2 reflect forty--three (43) Project Management Committee (PMC) bank account balances totaling Kshs.89,675 as at 30 June 2017. However, bank statements and reconciliations were not made available for audit review.

Consequently, the accuracy of the balance of Kshs.89,675 as at 30 June 2017 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 - Suna East 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 Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Budget Performance

NGCDF - Suna East Constituency's approved budget for 2016/2017 amounted to Kshs.81,896,552. During the same period, the fund incurred expenditure of Kshs.135,943,460 or 166% of the approved budget as detailed below:

Receipt/ Expense	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under/ Over Expenditure (Kshs)	% Utilization
Receipts	81,896,552	81,896,552	-	100
Transfer from CDF Board				

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Authority to Incur Expenditure (AIEs)				
Payments				
Compensation of Employees	4,414,864	3,696,551	718,313	84
Use of Goods and Services	2,586,932	9,855,418	(7,268,486)	381
Transfers to Other Government Units	39,900,000	51,823,343	(11,923,343)	130
Other Grants and Transfers	34,994,756	70,571,148	(35,576,392)	202
Total	81,896,552	135,946,460	(54,049,908)	166

2. Excess Expenditure on Stalled Construction of Culvert at Osingo and Nyamongo Schools

Included in other grants and payments expenditure of Kshs.70,571,148 reflected in the statement of receipts and payments for the year under review is Kshs.29,091,648 in respect of roads projects which in turn includes Kshs.10,276,950 for construction of a box culvert joining Osingo Primary School and Nyamongo Secondary School. The project was implemented by the Constituency Development Fund Committee instead of Project Management Committee. Further, the contract sum for the project was Kshs.10,276,950 while total payments made amounted to Kshs.10,603,148 which sum thus surpassed the contract price by Kshs.326,198. Audit verification revealed that the project was abandoned before completion with branding, installation of 900mm diameter culverts including headwalls, wing walls, bedding and hunching pending. In addition, back-filling was done on one side of the road only. Further, there was no evidence of the involvement of the relevant government agency as directed by the NGCDF Board.

Consequently, the propriety of the expenditure of Kshs.10,276,950 incurred on the project cannot be confirmed and further with the abandonment of the project, value-for-money is yet to be obtained on the sum invested therein.

3. Excess Expenditure on Construction of Unserviceable Communal Water Kiosk and Pipeline at Mapera Secondary School

Also included in other grants and payments of Kshs.70,571,148 is Kshs.29,091,648 incurred in respect of road projects and which in turn includes Kshs.5,424,343 incurred on construction of a communal water supply system including water kiosks and pipelines, drilling of boreholes and installation of an overhead tank and water pump at Mapera Secondary School. Review of project documents revealed that the project was implemented by the Constituency Development Fund Committee instead of the Project Implementation Committee. Further, the contract sum was Kshs.4,424,346 while the contractor was paid Kshs.5,424,343 which sum exceeded the contract sum by Kshs.999,997. The works were completed but the project was not operational due to defects that occurred after commissioning.

Consequently, the regularity of the expenditure of Kshs.5,424,343 cannot be confirmed.

4. Drilling of Borehole and Installations at God Ngoche Girls Secondary

Included in transfers to other government entities expenditure balance of Kshs.51,823,343 is Kshs.18,124,343 incurred in respect of transfers to secondary schools and which in turn includes Kshs.4,000,000 incurred on drilling a borehole, piping, electrical works and installation of overhead tank at God Ngoche Girls Secondary School at a contract sum of Kshs.4,356,450. Audit verification revealed that the water tank and tank mast were delivered and the borehole sunk but the project stalled before completion and the contractor eventually abandoned the site. In the circumstance, the residents of Suna East Constituency are yet to obtain any value for the funds invested in the project.

5. Project Verification

Seventeen (17) projects costing Kshs.50,227,495 were verified during the audit. Only one project was found to be complete and in use as detailed below:

No.	Project	Amount (Kshs)	Observations
1.	God Ngoche Girls Secondary School	4,000,000	Project has Stalled
2.	Radienya Girls Secondary School	4,000,000	Complete and in Use
3.	Communal Water Kiosk and Pipe at Mapera	5,424,343	Ongoing
4.	Rabuor Opasi Primary School Feeder Road	2,950,000	Ongoing
5.	Nyamongo Primary/Secondary – Osingo primary/Secondary Box Culvert	10,603,148	Publicity sign board worth Kshs. 20,000 not placed on the project site 900mm culverts not installed
6.	Ranganya/Tingna Primary/Warisia Road	2,000,000	Ongoing
7.	God ngoche – Onyalo Biro Road	5,100,000	Ongoing
8.	Rabuor chief/AP Post	2,200,000	Ongoing
9.	Nyabisawa AP Post	2,250,000	Ongoing
10.	Lichota Police/AP post	1,550,000	Ongoing
11.	Ombo Primary	800,000	Ongoing
12.	Onyalo Primary	500,000	Ongoing
13.	Anjego Secondary	2,000,000	Ongoing

14.	Anjego Primary	600,000	Ongoing
15.	Vyalo Primary	1,000,000	Ongoing
16.	Muhaya Primary school	1,000,000	Ongoing
17.	Nyikendo Primary school	750,000	Ongoing
18.	Kilimanjaro Primay School	900,000	Ongoing
19.	God Jope Primary School	900,000	Ongoing
20.	Sagegi Primary School	700,000	Ongoing
21.	Rabuor Taya Primary	1,000,000	Ongoing
	Total	50,227,495	

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 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 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.

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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 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 of the entity or business activities 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

11 October 2018