

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – TIGANIA WEST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Tigania West Constituency set out on page 5 to 19, 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 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 the National Government Constituencies Development Fund – Tigania West 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 Public Finance Management Act, 2012 and 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 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**

#### **1.0 Accuracy, Completeness and Presentation of the Financial Statements**

##### **1.1 Presentation of the Financial Statements**

The International Public Sector Accounting Standards (Cash Basis) financial statements presentation format prescribed by the Public Sector Accounting Standards Board pursuant to Section 194 of the Public Finance Management Act, 2012 requires the inclusion of a separate recurrent summary statement of appropriation and a separate development summary statement of appropriation. However, the Fund did not prepare the two separate summary statements as required. Consequently, the presentation of the financial statements for the year under review did not conform to the format prescribed by the Public Sector Accounting Standards Board under International Public Sector Accounting Standards (Cash Basis).

##### **1.2 Accuracy and Completeness of the Financial Statements**

The financial statements for the year under review reflect a balance of Kshs.47,535,256 on Seven (7) items while the related supporting ledgers show a balance of Kshs.62,340,690 resulting in an unexplained and unreconciled understatement of the financial statements by Kshs.14,805,434 as follows;

<b>Component</b>	<b>Financial Statements (Kshs.)</b>	<b>Supporting Schedule (Kshs.)</b>	<b>Variance (Kshs.)</b>
Domestic Travel	89,000	89,800	(800)
Committee Expenses	1,039,000	1,128,000	(89,000)
Routine maintenance – vehicles and other transport equipment	118,152	117,252	900
Routine maintenance –other assets	98,550	465,084	(366,534)
Transfers to Primary schools	30,850,000	38,050,000	(7,200,000)
Transfers to Secondary schools	14,300,000	19,450,000	(5,150,000)
Environment	1,040,554	3,040,554	(2,000,000)
<b>Total</b>	<b>47,535,256</b>	<b>62,340,690</b>	<b>(14,805,434)</b>

In the circumstances, the accuracy and completeness of the financial statements balances as at 30 June 2017 could not be ascertained.

## **2.0 Cash and Cash Equivalents**

The statement of financial assets reflects a bank balance of Kshs.6,429,620 as at 30 June 2017. However, the bank reconciliation statement indicates unrepresented cheques totaling Kshs.1,787,427 which include stale cheques of Kshs.12,844 which had not been adjusted in the cash book. Further, Annex 2 to the financial statements reflects Project Management Committee (PMC) bank accounts balances of Kshs.3,256,040. However, the Fund did not provide the bank statements, cashbooks and bank reconciliation statements for these accounts.

Consequently, the accuracy and completeness of the cash and cash equivalents' balance of Kshs.6,429,620 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund – Tigania West 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 judgement, were 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. Budgetary Control and Performance

During the financial year under review, the Fund had an approved budget of Kshs.159,316,416 comprising of Kshs.81,896,552 for financial year 2016/2017 and Kshs.77,419,865 being funds brought forward from financial year 2015/2016. The total expenditure by the Fund during the year under review was Kshs.148,842,132 representing an absorption rate of 93% of the total approved budget. However, accounting records made available for audit reflect an expenditure of Kshs.163,191,232 resulting into an unexplained and unreconciled variance of Kshs.14,349,100. A comparison of the Kshs.159,316,416 budgeted expenditure and the Kshs.163,191,232 actual expenditure as per the accounting records gave an over expenditure of Kshs.3,874,815 as follows;

<b>Expenditure Analysis</b>	<b>Budget Kshs.</b>	<b>Actual Kshs.</b>	<b>Variance Kshs.</b>	<b>Absorption Kshs.</b>
Compensation of Employee	2,909,912	1,322,502	1,587,410	45%
Use of Goods and services	8,385,914	8,760,999	(375,085)	104%
Transfer to Other Government Unit	57,887,017	63,100,000	(5,212,983)	109%
Other Grants and Transfers	90,133,574	90,007,731	125,843	100%
<b>Total</b>	<b>159,316,416</b>	<b>163,191,232</b>	<b>(3,874,815)</b>	<b>102%</b>

No supplementary budget approving the over-expenditure was made available for audit review.

In the circumstances, the Fund spent unauthorized expenditure amounting to Kshs.3,874,815 in the year ended 30 June 2017.

## 2. Project Implementation

The project implementation status made available for audit indicated that a total of Kshs.74,525,863 was disbursed to forty-seven (47) projects out of which nine (9) projects costing Kshs.6,968,968 had not started while thirty-eight (38) projects costing Kshs.67,556,895 were completed in various sectors as shown below;

<b>No.</b>	<b>Sector</b>	<b>Project Status</b>	<b>Amount Disbursed (Kshs.)</b>	<b>No. of Projects</b>
1	Education	Complete	36,350,000	26
		<b>Sub Total</b>	<b>36,350,000</b>	<b>26</b>
2	Roads & Bridges	Complete	2,000,000	1
		Not Started	3,150,000	3
		<b>Sub Total</b>	<b>5,150,000</b>	<b>5</b>
3	Bursary	Complete	20,474,137	4

		Not Started	2,481,037	1
		<b>Sub Total</b>	<b>22,955,174</b>	<b>5</b>
5	Emergency	Complete	4,094,827	1
		<b>Sub Total</b>	<b>4,094,827</b>	<b>1</b>
6	Environment	Complete	2,000,000	1
		Not Started	191,133	
		<b>Sub Total</b>	<b>2,000,000</b>	<b>1</b>
7	Security	Complete	1,300,000	4
		Not Started	236,798	2
		<b>Sub Total</b>	<b>1,536,000</b>	<b>6</b>
8	Sports	Complete	1,337,931	1
		<b>Sub Total</b>	<b>1,337,931</b>	<b>1</b>
9	Health	Not Started	150,000	1
		<b>Sub Total</b>	<b>150,000</b>	<b>1</b>
10	Water	Not Started	760,000	1
		<b>Sub Total</b>	<b>760,000</b>	<b>1</b>
		<b>GRAND TOTAL</b>	<b>74,525,863</b>	<b>47</b>

In view of the foregoing, the constituents did not get promised and expected services equivalent to the 9 (Nine) unimplemented projects worth Kshs.6,968,968.

### 3. Irregular Implementation of Projects

During the financial year under review, the Fund budgeted, funded and implemented health, water and roads projects worth Kshs.22,923,340. However, the projects under these sectors did not fall within the functions of the National Government under the Constitution. The Funding of these projects was therefore contrary to Section 24 (1) of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, the Fund was in breach of Section 24 (1) of the National Government Constituencies Development Fund Act, 2015 and the legality, validity of the expenditure could not be confirmed.

### 4. Unaccounted for Bursary Funds

During the financial year under review, the Fund awarded a tender through quotations to Isiolo Driving School Limited for training motor cycle operators at a contract sum of Kshs.1,003,400. However, the Kshs.1,003,400 was above the set limit of Kshs.500,000 for class C entities for using quotations as set in the first schedule threshold matrix annexed to the Public Procurement and Disposal (Amendment) Regulations, 2013.

In the circumstances, it was not possible to ascertain that the Fund was in breach of procurement regulations.

### 5. Mock and Exams

#### (i) Revision Papers

During the financial year under review, the Fund awarded a tender through quotations for supply of revision pack at a contract sum of Kshs.980,100 and subsequently paid Kshs.980,100 through voucher No. 327 dated 31 August 2016 for 33 revision packs. However, the tender sum of Kshs.980,100 was above the set limit of Kshs.500,000 for class C entities for using quotations as per the first schedule threshold matrix annexed to the Public Procurement and Disposal (Amendment) Regulations, 2013. Further, the tender was awarded to a bidder who had quoted Kshs.980,000 instead of the lowest evaluated bidder who had quoted Kshs.297,000 resulting in a wasteful expenditure of Kshs.683,100 contrary to Section 191(1) of the Public Finance Management Act, 2012.

## **(ii) Examination Papers**

During the financial year under review, the Fund awarded a tender through quotations for printing and supply of examination papers to Primary and day Secondary schools in Tigania West at a contract sum of Kshs.1,000,000. As a result, the Fund paid Kshs.1,000,000 through voucher No. 165 dated 17 July 2016 for printing and supply of examination papers. However, the National Government Constituencies Development Fund Committee awarded the tender through quotation at a cost of Kshs.1,000,000; which was above the set limit of Kshs.500,000 for class C entities for using quotations as per the first schedule threshold matrix annexed to the Public Procurement and Disposal (Amendment) Regulations, 2013.

In the circumstances, the Fund was in breach of procurement regulations.

## **6. Construction and Installation of Steel Tank at Kianjai Water Project**

During the financial year under review, the Fund transferred Kshs.2,900,000 to Tigania West Water Management Committee for construction and installation of a steel water tank at Kianjai Water project. Tender evaluation was done on 30/01/2017 upon which the contract was awarded at a contract sum of Kshs.2,658,720. As a result, the payments were made through payment voucher No. 248 of Kshs.2,200,000 dated 30/10/2016 and voucher No. 280 of Kshs.700,000 dated 05/12/2016. However, although the quotation procurement method was used for procuring the works, the Kshs.2,658,720 was above the set limit of Kshs.500,000 for class C entities for using quotations as per the first schedule threshold matrix annexed to the Public Procurement and Disposal (Amendment) Regulations, 2013. Further, the tender qualification criteria required proof of works of similar magnitude and complexity undertaken in the last 5 years and proof of sound financial standing and adequate access to bank credit line. However, the winning bidder did not provide certificate of incorporation and financial statements as evidence for years in operation. A physical verification of the project done on 16 May 2018 established that although the tank was constructed it was not in use.

In the circumstances, the regularity and value for money of the Kshs.2,900,000 could not be ascertained.

## **7. Construction and Installation of Steel Tank at Nkomo Water Project**

During the financial year under review, the Fund transferred Kshs.2,900,000 for construction and installation of steel water tank at Nkomo Water project through payment voucher No. 249 dated 30 October 2016 of Kshs.2,200,000, and voucher No.

280 dated 5 December 2016 of Kshs.700,000. The tender was awarded through quotations on 30 January 2017 at a contract sum of Kshs.2,658,720. However, the procurement method for works of Kshs.2,658,720 was above the set limit of Kshs.500,000 for class C entities for using quotations as per the first schedule threshold matrix annexed to the Public Procurement and Disposal (Amendment) Regulations, 2013. Further, the tender qualification criteria required proof of works of similar magnitude and complexity undertaken in the last 5 years and proof of sound financial standing and adequate access to bank credit line. However, the winning bidder did not provide certificate of incorporation and financial statements as evidence for years in operation. Further, no valuation certificates were availed for audit from the relevant government department. A physical verification of the project done on 16 May 2018 established that although the tank was constructed it was not in use.

Consequently, the regularity and value for money of the expenditure of Kshs.2,900,000 could not be ascertained.

### **8. Fencing of Urura Stadium**

During the financial year under review, the Fund funded the fencing of Urura Stadium with Kshs.7,800,000 through payment voucher No. 247 dated 30/10/2016. However, the Bills of quantities availed for audit did not have specific details of the cost estimate for each works to be carried out contrary to Section 46 of the National Government Constituencies Development Act, 2015. Further, Sports being a devolved function, the Fund incurred an expenditure of Kshs.7,651,598 contrary to Section 24 (1) of the National Government Constituencies Development Fund Act, 2015 as it was over and above the approved sports expenditure of Kshs.1,337,931 as per Section 25 (8) of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, the regularity of Kshs.7,800,000 expenditure could not be ascertained.

### **9. Construction of MCH Ward Mutionjuri Dispensary**

During the financial year under review, the Fund transferred Kshs.2,000,000 through cheque No. 6126 dated 23/11/2016 to Mutionjuri Dispensary for Construction of MCH Ward: sub-structure, flooring, walling, ring beam, and trussing. However, a physical verification done on 16 May 2018 established that the project had stalled at the slab level and was depreciating before completion.

Consequently, the value for money of the expenditure of Kshs.2,000,000 could not be ascertained.

### **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/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting. 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:

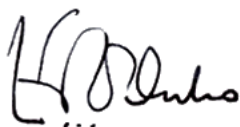
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 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**

**30 July 2018**