

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Voi Constituency set out on pages 6 to 28, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund – Voi 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 do not comply with the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Transfers from Other Government Entities

The statement of receipts and payments reflects transfers from other government entities of Kshs.130,020,015 while records maintained by the National Government Constituencies Development Fund Board show a figure of Kshs.132,725,596 as transferred to the Fund during the year under review, resulting to a variance of Kshs.2,705,581, which has not been reconciled.

Consequently, the accuracy and completeness of transfers from other government entities of Kshs.130,020,015 for the year ended 30 June 2017 could not be confirmed.

2. Transfers to Other Government Units

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other government units of Kshs.95,097,061, out of which Kshs.22,350,000 was transferred to secondary schools as disclosed in Note 6 to the financial statements.

Anomalies were noted in respect of expenditure amounting to Kshs.12,500,000 as detailed below:

2.1 New Marungu Secondary School Project

Included in Kshs.12,500,000 is Kshs.7,500,000 transferred to New Marungu Secondary School Project, out of which Kshs.5,000,000 was for construction of administration block and two(2) classrooms while Kshs.2,500,000 was for construction of three(3) classrooms. The contract price for the entire project was Kshs.8,814,52.

However, the contract was awarded through use of quotations instead of national open tender method, contrary to the First Schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013 on thresholds matrix for Class C procuring entities which sets a minimum of Kshs.4,000,000 for use of open tender method.

The project was inspected on 28th May 2018 and found complete and in use but had cracks on the floor. Further, it was observed that a laboratory was constructed instead of the three (3) classrooms for which the funds were allocated but approval of the Board to re-allocate the funds was not availed for audit verification contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which requires such approval.

2.2 Mlundinyi Primary School Project

Included in the Kshs.12,500,000 is Kshs.5,000,000 transferred to Mlundinyi Primary School Project for construction of five (5) classrooms. However, the expenditure was not supported with tender advertisement contrary to the First Schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013 on thresholds matrix for Class C procuring entities which sets a minimum of Kshs.4,000,000 for use of open tender method.

During project audit inspection in the month of May 2018, it was observed that four (4) classrooms had been constructed and were in use, instead of five (5) specified in the Bill of Quantities and the contract agreement. Further, the project was not labelled as funded by Fund nor architectural drawings availed in support of the four (4) classrooms.

Consequently, the propriety and completeness of the expenditure amounting to Kshs.12,500,000 on transfers to other government units for the year ended 30 June 2017 could not be confirmed.

3. Other Grants and Transfers

The statement of receipts and payments for the year ended 30 June 2017 reflects other grants and transfers of Kshs.40,049,591 as disclosed in Note 7 to the financial statements. However, the following observations were made:

3.1 Water Projects

Note 7 to the financial statements for the year ended 30 June 2017 reflects Kshs.2,000,000 on water projects. However, this expenditure is contrary to the requirement of Section 24 of the National Government Constituencies Development Fund Act, 2015 which provides that 'a project under this Act shall only be in respect of works and services falling within the functions of the national government under the Constitution'.

Consequently, the propriety of the Kshs.2,000,000 on water projects could not be confirmed.

3.2 Bursaries

Note 7 to the financial statements reflects Kshs.15,536,000 in respect of bursaries to secondary schools and Kshs.6,105,973 for bursaries to tertiary institutions, all amounting to Kshs.21,641,973. However, the expenditure was not supported with acknowledgements of receipt by the respective secondary schools and tertiary institutions.

Consequently, the propriety and accuracy of Kshs.21,641,973 on bursaries for the year ended 30 June 2017 could not be confirmed.

4. Unsupported Expenditure

The financial statements for the year ended 30 June 2017 contained unsupported expenditure amounting to Kshs.11,311,418 as detailed below:

	Component	Note	Unsupported Expenditure (Kshs.)	Anomalies Noted
1.	Compensation of Employees	4	323,836	Payment vouchers were not availed in support of the expenditure.
2.	Utilities, Supplies and Services	5	248,650	Note 5 to the financial statements reflects utilities, supplies and services of Kshs.3,648,209. Included in this amount is stationery costing Kshs.248,650 which was not supported with delivery notes, counter receipt vouchers, stores ledger cards and counter requisition and issue vouchers.
3.	Utilities, Supplies and Services	5	1,285,920	Note 5 to the financial statements reflects utilities, supplies and services expenditure amounting to

				Kshs.3,239,482, out of which Kshs.1,285,920 is in respect of landscaping of the office compound. However, inspection and acceptance committee reports were not availed for audit verification.
4.	Committee Allowances	5	9,453,012	The expenditure is not supported with invitation letters, workshop venues, work tickets or bus tickets, signed attendance registers and certificates of attendance/participation. Further, included in this amount are sitting and accommodation allowances amounting to Kshs.3,969,950 paid to Constituency Committee members, while carrying out projects monitoring and evaluation activities. However, the schedule or calendar of meetings to be held during the year were not availed for audit verification.
	Total		11,311,418	

Consequently, the propriety of expenditure amounting to Kshs.11,311,418 could not be confirmed.

5. Bank Balance

The statement of financial assets as at 30 June 2017 reflects a bank balance of Kshs.4,514,491. The Fund's bank reconciliation statement as at 30 June 2017 availed in support of this balance reflects un-presented cheques of Kshs.6,002,974, out of which cheques amounting to Kshs.82,816 were stale. Further, the bank reconciliation statement reflects receipts in bank statement not yet recorded in cash book of Kshs.3,280 and payments in bank statement not yet recorded in cashbook of Kshs.1,071,067 which includes receipts of Kshs.18,318 whose details have not been indicated and bank charges of Kshs.7,628 which ought to have been expensed in the statement of receipts and payments. However, no explanation has been given for non-reversal of the stale cheques and non-recording of the receipts and payments in the cash book. In addition, subsequent bank statements to confirm when cheques amounting to Kshs.2,390,566 were cleared by the banks were not availed for audit review.

Consequently, the accuracy, validity and completeness of bank balance of Kshs.4,514,491 as at 30 June 2017 could not be confirmed.

6. Cash Balance

The statement of financial assets as at 30 June 2017 reflects a nil cash balance. However, Board of Survey certificate was not availed in support of the balance.

Consequently, the accuracy of the nil cash balance could not be confirmed.

7. Project Management Committees Bank Balances

Annex 5 to the financial statements for the year ended 30 June 2017 reflects Project Management Committees (PMC) bank balances amounting to Kshs.42,595,244. However, certificates of bank balances were not availed in support of the same. Consequently, the accuracy and completeness of PMC bank balances of Kshs.42,595,244 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 – Voi 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 adverse 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 Adverse Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Performance and Analysis

During the year under review, the Fund had expenditure budget of Kshs.164,463,888 against actual expenditure of Kshs.151,193,887 or 91.5%, resulting to under expenditure of Kshs.13,270,001 (8.5%) as detailed below:

Item	Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Under Expenditure (Kshs.)	(%)
Compensation of Employees	4,196,803	2,528,467	1,668,336	40
Use of Goods and Services	16,894,767	13,518,768	3,375,999	20
Transfers to Other Government Units	97,233,035	95,097,061	2,135,974	2
Other Grants and	46,139,283	40,049,591	6,089,692	13

Transfers				
Total	164,463,888	151,193,887	13,270,001	8.5

The under expenditure of Kshs.13,270,001 or 8.5% may have curtailed delivery of goods and services to the residents of Voi Constituency.

2. Projects Implementation Status

The Fund's projects implementation status report as at 30 June 2017 availed for audit review indicated approved budgetary allocation of Kshs.45,000,000 for twenty-nine(29) projects and disbursements during the year under review of Kshs.56,460,081. Further, the report showed cumulative disbursements of Kshs.91,386,780 and cumulative expenditure of Kshs.53,493,102 or 58% of the disbursements, resulting to unspent balance of Kshs.37,893,678 or 42%. The following observations were also noted:

2.1 Projects With Excess Budgets

The projects implementation status report as at 30 June 2017 availed for audit review indicated total approved budget of Kshs.18,700,000 for four(4) projects against expenditure of Kshs.42,986,780 , resulting to over expenditure of Kshs.24,286,780 or 129% as detailed below:

S/No.	Name of The Project	Details Of The Project	Amount As Per Approved Proposal (Kshs.)	Cumulative Disbursements as At 30 th June 2017 (Kshs.)	Cumulative Expenditure as At 30 th June 2017 (Kshs.)	Unspent Balance (Kshs.)	% of Completion
1	Gimba Primary School	Construction of 1 classroom	700,000	2,010,081	1,002,000	1,008,081	0
2	Mbele Secondary School	Construction of 1 classroom	1,000,000	1,150,000	1,039,998	110,002	94
3	Voi Medical Training College	Construction of lecture halls	4,000,000	18,000,000	13,322,280	4,677,720	97
4	Voi Community Library	Construction of a library	13,000,000	21,826,699	8,521,145	13,305,554	56
Total			18,700,000	42,986,780	23,885,423	19,101,357	

Approval of the over expenditure of Kshs.24,286,780, which is the excess of total disbursements of Kshs.42,986,780 and approved allocations of Kshs.18,700,000, by the Board was not availed for audit review.

2.2 Projects With Unutilized Funds

The projects implementation status report as at 30 June 2017 availed for audit review indicated that nine(9) projects which had received total disbursements of Kshs.6,880,000 as at that date had not started as detailed below:

S/No	Name of The Project	Details Of The Project	Amount As Per Approved Proposal (Kshs.)	Cumulative Disbursements as At 30 June 2017 (Kshs.)	Unspent Balance (Kshs.)	% of Completion
1	Ndii Primary School	Construction of 2 classroom	1,400,000	1,400,000	1,400,000	0
2	Ikanga Primary School	Renovation of 2 classrooms	500,000	500,000	500,000	0
3	Ndome Primary School	Construction of 1 classroom	800,000	800,000	800,000	0
4	Sowa Primary School	Construction of 1 classroom	700,000	700,000	700,000	0
5	Kambito Primary School	Construction of 1 classroom	700,000	700,000	700,000	0
6	Priscillar Primary School	Construction of 1 classroom	700,000	700,000	700,000	0
7	Tausa Primary School	Construction of 1 classroom	700,000	700,000	700,000	0
8	Manyani Primary School	Construction of 1 classroom	800,000	800,000	800,000	0
9	Mwakajo Primary School	Renovation of 2 classrooms	500,000	500,000	500,000	0
Total			6,800,000	6,800,000	6,800,000	

The unspent funds amounting to Kshs.6,800,000, means that implementation of the projects is delayed and service delivery to residents of Voi Constituency is curtailed.

3. Projects Verification

During the year under review, nine(9) projects which received disbursements amounting to Kshs.35,226,699 were inspected in the month of May 2018 and anomalies noted in four(4) of them which received Kshs.3,500,000 are detailed below:

S/No	Project Name	Activity	Expenditure (Kshs.)	Anomalies Noted
1.	Mabomani Water Project	Construction of Water Tanks	700,000	The project was complete but tanks installed at Mabomani Primary School were leaking yet the contractor had been fully paid.

2.	Sasenyi School	Primary	Construction of two(2) classrooms	1,400,000	The project was complete but floor had cracks and the contractor had been fully paid. Further, the project was not labelled as funded by Fund.
3.	Wangala School	Primary	Construction of one(1) classroom	700,000	The project was complete and the contractor fully paid. However, the project was not labelled as funded by Fund.
4.	Msharinyi School	Primary	Construction of two(2) classrooms	700,000	The project was complete and the contractor fully paid. However, the project was not labelled as funded by Fund.
			Total	3,500,000	

Consequently, the propriety and value for money for Kshs.3,500,000 for the year ended 30 June 2017 could not be confirmed.

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 National Government Constituencies Development Fund - Voi Constituency's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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 National Government Constituencies Development Fund - Voi Constituency'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 National Government Constituencies Development Fund – Voi Constituency’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 National Government Constituencies Development Fund – Voi Constituency 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 National Government Constituencies Development Fund - Voi Constituency 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 National Government Constituencies Development Fund –Voi Constituency 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

05 July 2018