REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES' DEVELOPMENT FUND – WUNDANYI 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 - Wundanyi Constituency set out on pages 6 to 28, which comprise the statement of 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 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 National Government Constituencies' Development Fund - Wundanyi 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 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 matters described in the Basis for Qualified Opinion and Other Matter sections of my report, 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. Use of Goods and Services

The statement of receipts and payments reflects use of goods and services figure of Kshs.9,043,039 as detailed in note 5 to the financial statements. Included in this amount is Kshs.5,173,148 on committee allowances of which names of respective beneficiaries, nature of allowances paid per beneficiary and dates of the activities or meetings were not availed for audit verification.

As such, the propriety of Kshs.5,173,148 on committee allowances could not be confirmed.

2. Transfers to Other Government Units

Note 6 to the financial statements reflects transfers to secondary schools of Kshs.52,000,000. Included in the amount is Kshs.3,800,000 transferred to Mghalu High School for construction of a dormitory at a contract sum of Kshs.15,858.742.80 with expected commencement date of 18 April 2017 and completion date of 31 October 2017 or twenty-eight (28) weeks.

However, due to introduction of basement floor, the original contract sum was varied to Kshs.22,016,815.80, an upward variation of Kshs.6,158,073 or 39% of the original contract sum. Although the variation was tendered for separately, the revised work plan for the new contract was not availed for audit verification nor new completion date disclosed. During project audit inspection in the month of December 2017, it was observed that the project had a red mark by National Construction Authority, an indication of poor workmanship or non-compliance with laws and regulations governing building construction.

Consequently, the propriety and value for money for Kshs.3,800,000 for construction of the school dormitory could not be confirmed.

3. Cash and Cash Equivalents

The statement of financial assets as at 30 June 2017 reflects cash and cash equivalents' balance of Kshs.5,998,551. The following observations were made:

3.1 Bank Reconciliations

The bank reconciliation statement as at 30 June 2017 for the Fund reflected payments in cash book not yet recorded in bank statement of Kshs.2,361,997.70. However, included in this amount are stale cheques amounting to Kshs.282,728 which have not been reversed in cash book. In addition, subsequent bank statements to confirm when un-presented cheques of Kshs.2,079,269.70 were subsequently cleared by the bank were not availed for audit verification. Further, the bank reconciliation statement reflects receipts in bank statements not yet recorded in cash book of Kshs.23,700 and payments in bank statement not yet recorded in cash book of Kshs.324,175.75, some of which relate to the period between March 2009 and August 2014. It is not clear and the management has not explained the failing to record these receipts and payments in cash book. In addition, the reconciliation reflects bank charges of Kshs.5,529.75 which ought to have been expensed in the statement of receipts and payments for the year under review.

Consequently, the accuracy, completeness and validity of bank balance of Kshs.5,998,551 could not be confirmed.

3.2 Cash Balance

The statement of assets as at 30 June 2017 reflects nil cash balance which was not supported with Board of Survey Certificate.

As such, the accuracy and completeness of the nil cash balance as at 30 June 2017 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 - Wundanyi 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 Controls and Performance

During the year under review, the Fund had a budget of Kshs.139,571,700 and spent Kshs.133,897,149 or 96%, resulting to under expenditure of Kshs.5,674,551 or 4% as shown below:

Expenditure	Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption (Kshs.)	Under Absorption (%)
Compensation of Employees	2,805,996	2,672,438	133,559	5
Use of goods and services	10,112,546	9,034,039	1,078,507	11
Transfers to Other Government Units	57,891,379	57,891,379	-	-
Other grants and transfers	67,061,779	62,599,293	4,462,486	7
Acquisition of Assets	1,700,000	1,700,000	-	-
Total	**139,571,700**	**133,897,149**	**5,674,551**	**4**

The under expenditure of Kshs.5,674,551 or 4% is an indication of failure to implement planned projects hence delivery of goods and services to the residents of Wundanyi Constituency may have been curtailed.

2. Projects Implementation

The projects implementation status report as at 30 June 2017 indicated total budgetary allocation of Kshs.72,829,310 for nineteen(19) projects, all of which was disbursed to the projects during the year under review. Further, the report showed cumulative

disbursements of Kshs.119,867,931 as at 30 June 2017 against cumulative expenditure of Kshs.93,533,784 or 78%, resulting in unspent disbursements of Kshs.26,334,147 or 22% as at the same date as detailed below:

No.	Name of project	Details of the project	Amount of Allocation (Kshs.)	Disburse-ments in 2016/2017 (Kshs.)	Cumulative Disburse-ments (Kshs)	Cumulative Expendi-ture as at 30 June 2017 (Kshs.)	Unspent Disburse-ments (Kshs)	% Com-plete
1	Mwakiwiwi Secondary School	Purchases and Installation of gutters and water tank for water harvesting	500,000	500,000	500,000	0	500,000	0
2	Kiwinda Secondary School	Purchases and Installation of gutters and water tank for water harvesting	500,000	500,000	500,000	0	500,000	0
3	Kitumbi Secondary school	Purchases and Installation of gutters and water tank for water harvesting	500,000	500,000	500,000	0	500,000	0
4	Wumingu Technical Training Institute	Planting trees and vetiva grass	137,931	137,931	137,931	0	137,931	0
5	Mlilo Primary School	Completion of Roofing and fitting of Doors, Windows, fittings and flooring	1,000,000	1,000,000	2,500,000	2,250,296	249,703	100
6	Mwanda Primary school	Completion of two classes	950,000	950,000	2,450,000	2,117,267	166,366	86
7	St. Peters Funju Primary School	Rehabilitation of 8 classrooms	941,379	941,379	1,950,000	1,453,183	496,817	75
8	Vuria Primary School	Rehabilitation of 4 classes staffroom and administration offices	3,000,000	3,000,000	3,500,000	0	3,500,000	0
9	Mbela High School	Completion of laboratory	2,000,000	2,000,000	3,800,000	525,970	3,274,030	14
10	Mwakishimba Secondary School	Completion of second floor	20,000,000	20,000,000	26,500,000	26,379,669	120,331	100

11	Mdundonyi Secondary School	Completion of Laboratory	1,000,000	1,000,000	3,800,000	3,627,279	172,721	95
12	Hon. Thomas Mwadeghu Secondary School	Completion of second floor	20,000,000	20,000,000	29,630,000	29,613,392	16,608	100
13	Mghalu High School	Construction of a dormitory	3,800,000	3,800,000	5,800,000	1,626	5,798,374	0
14	Mghambonyi Secondary School	Completion of three classes on 1st floor	3,000,000	3,000,000	3,800,000	1,431,702	2,368,298	38
15	Mgange Nyika Hall	Completion of the hall	4,300,000	4,300,000	7,800,000	5,154,565	2,645,435	66
16	Wundanyi Deputy County Commissioner Office	Renovations of Deputy County Commissioners building	3,000,000	3,000,000	5,000,000	1,942,311	3,057,689	39
17	Funju Secondary School	Construction of a laboratory	2,200,000	2,200,000	4,200,000	2,957,636	1,242,364	70
18	Sungululu Community hall	Construction of a new hall	4,000,000	4,000,000	7,500,000	6,101,527	1,398,473	81
19	Mbale Community Centre	Construction of a new hall	2,000,000	2,000,000	10,000,000	9,977,361	22,639	100
	TOTAL		**72,829,310**	**72,829,310**	**119,867,931**	**93,533,784**	**26,334,147**	

Analysis of the table above reveals that six (projects) with total disbursements of Kshs.10,937,931 had not started at all by year end. Further, construction of a laboratory at Mbela High School which received funds amounting to Kshs.3,800,000 for years 2015/2016 and 2016/2017 appears slow given the 14% completion level as at 30 June 2017.

Further, two (2) of the projects whose disbursements totaled Kshs.9,400,000 were past their completion dates as shown below:

No	Name of the Project	Details of the project	Start Date	Expe-cted Compl-etion date	Period of delay as at time of verifica-tion	Cumulative Disburse-ments (Kshs.)	Expendi-ture in 2016/2017	Cumulative Expendi-ture as at 30 June 2017	% Com-plete
1	Funju Secondary	Constructi on of Laboratory at Funju Secondary	12/12/2016	3/4/ 2017	9	4,834,364	1,242,364	3,592,153	70
2	Mghalu Secondary School	Constructi on of Dormitory	18/4/2017	31/10/ 2017	2	20,049,447	1,998,374	4,887,907	0
			Total			**9,400,000**	**1,593,779**	**2,959,262**	

The under expenditure and failure to implement projects within the planned time indicates that the projects were not implemented in accordance with the provisions of Section 220(1) of the Constitution of Kenya which requires budgets of national government to contain estimates of revenue and expenditure, differentiating between recurrent and development and proposals for financing any budget deficit for the period to which they apply. This situation may have negative impact on delivery of goods and services to residents of Wundanyi Constituency.

3. Projects Verification

During the audit, eight (8) projects with total disbursements of Kshs.34,500,000 were inspected in the month of December 2017 and anomalies noted in four (4) projects which received a total Kshs.17,450,000 as detailed below:

S. No.	Name of Project	Details of Project	Amount Disbursed in 2016/2017 (Kshs.)	Anomalies Noted
1	Funju Secondary School	Construction of Laboratory	2,200,000	The project was reported as complete but not in use while cracks were visible in the floors. Further, guard rails specified in the Bill of Quantities had not been installed in the verandah.
2	Mwanda Primary School	Construction of Two Classrooms	950,000	At the time of audit inspection, the contractor was not on site yet guard rails and gutters specified in the Bill of Quantities had not been fitted. Further, the ground around the classrooms was eroded and which may destabilize the foundation.
3	Mwakishimba Secondary School	Completion of Second Floor for Two Classrooms	10,000,000	At the time of audit inspection, plastering of second floor had not been done nor window glasses fitted yet the contractor was not on site. Further, the roof was leaking and soil around the foundation had eroded. The guard rails also appeared too low.
4	Mghange Nyika Social Hall	Construction of Social Hall	4,300,000	The project was verified and found complete but not in use. Also, no signage of funding by Wundanyi NGCDF was erected on site.
		Total	**17,450,000**	

These anomalies may be as a result of poor planning and lack of requisite capacity to deliver on the contracts, which may delay completion of the projects and non-delivery of goods and services to the intended beneficiaries of Wundanyi Constituency.

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 - Wundanyi Constituency'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 National Government Constituencies Development Fund - Wundanyi Constituency 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 National Government Constituencies Development Fund - Wundanyi 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 - Wundanyi 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 - Wundanyi Constituency'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 National Government Constituencies Development Fund - Wundanyi Constituency's 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 - Wundanyi Constituency's 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

11 July 2018