

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KURESOI SOUTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Kuresoi South Constituency set out on pages 7 to 30 which comprise the statement of Assets and Liabilities as at 30 June 2018, and the statement of Receipts and Payments, Statement of cash flows for the year then ended, Statement of Appropriation for the year 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Accuracy and Completeness of the Financial Statements

The financial statements for the year ended 30 June 2018 had errors and omissions as disclosed below;

Issue	Remarks
Statement of entity Management responsibility	Page 6 on management responsibility has quoted PFM Act of 2013 instead of 2012
Opening balances of 2017/18	<p>The closing balances of 2016/17 which have been transferred to the 2017/18 financial statements as opening balances had the following misstatements;</p> <p>i. Page 8 on cash equivalents includes Kshs.50,000 as cash at hand, whereas the audited and certified accounts of 2016/17 has nil balance on cash at hand.</p> <p>ii. Page 9 on cash flow reflects use of goods and services as Kshs.6,099,358 while the audited and certified accounts of 2016/17 indicates Kshs.6,149,358</p> <p>Also, cash and cash equivalents at beginning of the year is shown as Kshs.7,198,218 while the certified accounts of 2016/17 shows Kshs.7,148,218.</p> <p>Also, cash equivalents at end of year is indicated as Kshs.7,252,523 while the certified accounts of 2016/17 indicates Kshs.7,202,524</p>

	<p>iii. Note 7 on page 17 on bursary to special schools indicated as nil yet certified accounts of 2016/17 reflected Kshs.499,000</p> <p>iv. Note 8 on acquisition of assets reflects Kshs.700,000 for purchase of bicycles and motorcycles and Kshs.324,000 for acquisition of land respectively. However, the payments relate to construction of buildings as well as purchase of furniture and general equipment respectively as appears in 2016/17 certified accounts.</p> <p>v. Note 10 B on page 19 reflects Kshs.50,000 as cash on hand while the audited and certified accounts of 2016/17 indicates nil balance</p> <p>iv. Note 13 on balances brought forward indicates bank accounts balance of Kshs.7,252,524 while the audited and certified accounts of 2016/17 has a balance of Kshs.7,198,218</p> <p>vi. Note 15.4 page 23 on PMC account balance reflects nil balance for 2017/18 whereas 2016/17 audited accounts shows a balance of Kshs.432,027</p> <p>vii. Annex 4 on summary of fixed assets page 27 for 2017/18 indicates brought forward balance of Kshs.8,233,007 whereas the audited and certified accounts of 2016/17 reflects a balance of Kshs.5,089,980</p>
Headings of the financial statements	page VII summary statement of appropriation heading is indicated as Maragua constituency.
Summary statement of appropriation	<p>i. Transfers from CDF board for 2017/18 indicated as Kshs.91,862,868, whereas the actual transfer was Kshs.84,610,345. The difference of Kshs.7,202,524 relates to opening balance which ought to be reported separately.</p> <p>ii. Included under transfers to Other Government units under budget adjustments is Kshs.11,622,019 which includes Kshs.11,379,310 for supplementary budget whose approval was given on 24/7/2018. The adjustment should have been reported separately as unapproved projects as at 30 June 2018.</p>
Significant accounting policies	They are indicated as starting from page 11 instead of 12

Further, included in the statement of appropriation is an unexplained adjustment of Kshs.4,667,027 on other payments. In addition, breakdown of the adjusted amount and the opening balance of Kshs.7,252,524 was not presented for audit.

It has therefore not been possible to confirm the accuracy of the financial statements submitted by management for the year ended 30 June 2018.

2.0 Cash and Cash Equivalents

The financial statements under note 10A reflect cash and bank balance of Kshs.3,292,655 as at 30 June 2018. However, a review of the cash book revealed a figure of Kshs.4,148,499 leading to a difference of Kshs.855,844. Further, a perusal of the bank reconciliation statement as at 30 June 2018, reflected unrepresented cheques totaling Kshs.23,017,819 out of which Kshs.480,497.95 were stale cheques with some dating as far back as 2015. The bank reconciliation also included Kshs.5,000 being receipts in bank but not recorded in cashbook and which have continued unrecorded since June 2017.

In addition, bank confirmation certificate as at 30 June 2018 was not presented for audit. In the circumstances, the accuracy and completeness of the bank and cash balance of Kshs.3,292,655 as at 30 June 2018 could not be confirmed.

3.0 Misstatements of Bursaries

The financial statements under note 7 reported bursary to secondary schools and to Tertiary institutions of Kshs.13,853,961 and Kshs.7,958,970 respectively. However, payment vouchers presented for audit revealed the following variances: -

	Financial Statements	Actual Figures per Vouchers	Difference
Bursary to Secondary Schools	13,853,961.00	12,687,795.00	1,166,166.00
bursary to Tertiary Schools	7,958,970.00	7,420,036.00	538,934.00
TOTALS			1,705,100.00

Further, a comparison of schedules/ledgers presented for audit with the financial statements figures also revealed the following differences: -

Details	Amount in the Financial Statements	Amount in the Schedules	Difference
Bursary to Secondary schools	13,853,961.00	13,022,795.00	831,166.00
Bursary to Tertiary schools	7,958,970.00	7,000,000.00	958,970.00
Total			1,790,136.00

Based on the above circumstance therefore, the financial statements do not reflect the correct position.

4.0 Overstatement of Committee Allowances

Note 5 of the financial statements reflects payments of Kshs.6,835,169 for use of goods and services as at 30 June 2018. Included in the figure is payments on committee allowances of Kshs.3,834,300 as at 30 June 2018. The audit schedule provided to support the payment reflects a figure of Kshs.4,505,188. Review of the cashbook however indicates payments totaling to Kshs.3,230,700, occasioning a difference of Kshs.603,600.

In the circumstance therefore, the payment of Kshs.3,834,300 on committee allowances could not be confirmed.

5.0 Unexplained Adjustment in Statement of Appropriation

Included in the statement of appropriation is an adjustment of Kshs.4,667,027 on other payments where no explanation/breakdown was given on the projects that were to be undertaken with the funds. A breakdown of the opening balance of Kshs.7,252,524 was equally not provided.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources/Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1.0 Irregular Recruitment of Staff

The financial statement on Note 4 on Compensation of employees reported a figure of Kshs.1,477,336. However, out of this was one staff employed as Clerks of works beginning 1 February 2018. Scrutiny of the personal files availed for audit revealed that Mr. Thomas Tereget has a Bachelor's Degree Business and Information Technology and several attachments for his recommendations from fields of Information Technology.

It was not clear why an individual with Bachelor's degree in Business and Information Technology would perform the work of Clerks of work whose requirements are a minimum of a Diploma in building and construction, an understanding of the buildings industry and knowledge on materials.

2.0 Misclassification on Training Expenses

The financial statements on Note 5 on Use of goods and Services reported a figure of Kshs.300,000 as Hospitality, supplies and services. However, scrutiny of the Payment voucher number 57 dated 28 June 2018 paid to Jarika County Lodge revealed that this payment was paid as training carried out during the financial year under review. It was not clear why it was miss- classified and should have been charged to the correct vote of training expenses.

3.0 Irregular Secondary Schools' Projects Implementation

Note 6 of the financial statements as at 30 June 2018 reflects Kshs.12,500,000 as transfers to secondary schools. However, audit review of sampled project files and subsequent physical verification of the projects in April 2019 revealed the following anomalies: -

Project Name	Chq	Kshs	Remarks
Kapkeet Secondary School	04233	1,000,000.00	The school had a budget of Kshs.1 million for construction of one classroom to completion. However, the PMC constructed 2 classrooms which were not completed contrary to the project

			activity in the code list and no approval of change of activity was sought from the board. Extra project implemented without approval.
Tinet Kapkoi Secondary School	04236	800,000.00	Kshs.800,000 budget was approved for the year 2017/18 to construct an administration block. On physical verification it was noted the project was complete. However, no project design nor certificate of completion nor inspection and acceptance report were provided for audit review.
Sugutek Secondary School	04000	400,000.00	Kshs.1million had been budgeted with Kshs.400,000 for laboratory fixings and Kshs.600,000 for one new classroom construction. However, no classroom was done apart from gas and water fixtures in lab. Further no inspection and acceptance report for works done nor PMC bank account statement were provided for audit review.
Kapngorot Secondary School	3996	500,000.00	Budget of Kshs.500,000 was approved for plastering, flooring, painting, windows and door fixing of a classroom done earlier. However, audit inspection revealed the PMC did a different activity of installation of lab equipment. No authority on change of activity was sought from the CDF board.
Kimororoch Secondary School	04241	1,200,000.00	Budget set was Kshs.1.2 million and code list indicated the amount was to construct two classrooms to completion. Though the PIS indicated the project as complete, physical verification done on 10/4/19 confirmed that the project was not complete as no painting was done and no stone keys done on the walls. Further, the walls and floor were cracking and the windows were very small also. No certificate of payment nor building plan was provided to confirm that the class measurements were done as provided. Also no inspection and acceptance report was produced for audit.
Chemaner Secondary School	04237	1,600,000.00	Project was budgeted for construction of one classroom at Kshs.600,000 and another Kshs.1 million for construction of a dormitory. Though the works were quite good, no design plan nor inspection and acceptance report as well as completion certificate from department of works was provided for audit review.
Tinet kabongoi girls Secondary School	n/a	n/a	The school was fully funded in earlier years as a model school and classes, laboratory, administration block as well as dormitories were constructed and finalized in 2016/17. During physical verification of an adjacent primary school in which they share a compound, it was noted that the school is not fully utilized as a board member confirmed it only had 17 students out of a possible 180 from form one to form four.

			The reason for the poor student enrolment was cited as lack of TSC teachers who cannot be posted to the school as it has not been registered as a public school by the Ministry of Education. The CDF therefore funded a school that was not registered.
		5,700,000	

As a result, therefore, value for money for the implemented projects may not have been achieved.

4.0 Unsupported Expenditure-Other Operating Expenses

Note 5 to the financial statements reported Use of Goods and services amounting Kshs.6,835,139. Included in this figure was Kshs.259,621 for other operating expenses and Kshs.1,257,041 for Routine maintenance-vehicles and other transport equipment. However, only schedules amounting to Kshs.1,33,350 for routine maintenance were presented for audit. Further, payment voucher(s) and supporting documents were provided for audit verification.

In absence of the above documents it was not possible to ascertain the propriety of expenditure.

5.0 Failure to Comply with the Laid Down Laws During Projects Implementation

Note 6 to the financial statements reported Transfers to other Government Agencies of Kshs.38,600,000. Included in this figure was Kshs.26,100,000 for primary schools projects.

Audit review of the projects files maintained at Kuresoi South-NGCDF office revealed that some of the projects implemented differed with the ones approved by the board.

Secondly, some projects were not implemented even after changing the project activity without approval of the board as per the contract agreements. Details are as tabulated here below.

Primary School	Works Approved by Board as per Code List	Amount Paid (Kshs)	Works done as per Physical Verification	Works not Completed	Remarks after PV
Chepkiswet Primary School	Construction of two classrooms to completion	1,200,000	Construction of two classrooms	Metal pillars not installed to support the roof in front of the classroom	Works not completed but fully paid for
Kabongoi Primary School	Construction of two classrooms to completion	1,200,000.00	Construction of three classrooms	1. Not painted 2. Ceiling not installed 3. Not being utilized	Works not completed but fully paid for
Kabongoi Primary School	Construction of one classrooms to completion	600,000.00			

Primary School	Works Approved by Board as per Code List	Amount Paid (Kshs)	Works done as per Physical Verification	Works not Completed	Remarks after PV
Kipsotet Primary school	Completion of 3 classrooms (plastering, walling, painting windows and doors)	500,000.00	None	1. Construction of one classroom as per the contract agreement which was change of activity without Board approval 2. Failure to brand the CDF project which is clear manifestation of misappropriation of funds	The three classrooms seem were constructed by the same donor ie. Better World as per the explanation by clerk of works hence the money was not utilized for the intended purpose.
Siwot Primary School	Completion of four classrooms (roofing, ceiling, plastering and installation of doors and windows)	600,000.00	None	1. Construction of two permanent classrooms and verandah as per the contract agreement which was change of activity without Board approval 2. Failure to brand the CDF project which is clear manifestation of misappropriation of funds	The roof of the classrooms purported to have been built had rusty iron sheets and windows. The verandah shared with adjacent classrooms betrayed the explanation that the verandah was done for the two classrooms. The only thing that happened according to the school administration was plastering of the floor & walls, painting and installation of two metal doors.
Tegat Primary School	Completion of two classrooms, Plastering ,walling, floor painting and door	500,000.00	Construction of four classrooms but floor not plastered	1. Floor plastering 2. Failure to deliver four classrooms as was approved by the Board to renovate the eight classrooms	Cost of the four classrooms deliberately varied by Kshs.922,520 without approval of the

Primary School	Works Approved by Board as per Code List	Amount Paid (Kshs)	Works done as per Physical Verification	Works not Completed	Remarks after PV
	Renovation of six classrooms (plastering, walling, floor painting and doors)	1,400,000.00			Board as the contract cannot be awarded based on the BQs but the budgeted and approved amount.
Tendwet Primary School	Completion of four toilets (roofing, ceiling, plastering and doors fixing)	600,000.00	Construction of mini wall around 8 toilets	Completion of 4 toilets (plastering, roofing, door fixing and painting)	Mini wall cost cannot be equivalent to a standard classroom cost of Ksh. 600,000. Misappropriation of funds.

In addition, it was observed that withholding tax amounting to Kshs.783,000 was not deducted from the contractual fees on construction works carried out and paid for. Further, examination of project bank statements revealed that in some instances retention money was paid before expiry of six months.

In addition, examination of the code lists also revealed that implementation costs varied for similar projects especially on completion of classroom works (roofing, ceiling, plastering and doors fixing).

As a result of the above observations it was not possible to ascertain whether Kuresoi South CDF obtained value for money utilized in primary school projects.

6.0 Unsupported Expenditure-Purchase of Office Furniture and Fittings

The financial statements under note 8 reported Kshs.3,143,027 as purchase of office furniture and fittings. However, perusal of records revealed that the expenditure was not budgeted for, no explanation was provided regarding the source of funds used.

Further, the payment voucher(s) and their supporting documents were not presented for audit verification and it was therefore difficult to confirm the existence of the assets.

In the absence of the above documents it was not possible to ascertain the amount was used for the intended purpose.

7.0 Irregular Project Procurement and Execution

Note 7 of the financial statements for the year ended 30 June 2018 reflects Kshs.2,500,000 disbursed towards security projects. The budget indicates Kshs.1,000,000 was for construction of DO's office in Kiptangich while Kshs.1,500,000 was for construction of police offices at Keringet. However, the management did not

provide for audit the Bills of quantities prepared by the public works to confirm project cost for the DOs office. Also no tender advertisement, tender opening minutes, evaluation minutes and contract agreement were provided to confirm the procurement process. Further, the client did not also provide the project management committee bank statement making it difficult to confirm the actual payments made to the contractor. It has therefore not been possible to confirm the project cost and the scope of work as at the time of project verification on 09.04.2019 despite the project being almost complete with roofing having been done.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for [Conclusion of Internal Controls, Risk Management and Governance /Disclaimer of Opinion] section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1.0 Outstanding Imprests

The Financial statements under Note 11 reported a nil balance on outstanding imprests as at 30.06.2018. However, scrutiny of the cash book revealed a figure of Kshs.2,660,388 as un-surrendered Imprest. Further, list of Imprest holders was not provided for audit verification. It was therefore not clear why the outstanding imprests had not been disclosed in the financial statements and why it remained outstanding at the end of that financial year.

As a result, the possibility of loss of funds may not be ruled out.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.
- 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 NG-CDF Kuresoi South 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 NG-CDF 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 NG-CDF Kuresoi South 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

9 August 2019