

**REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT
CONSTITUENCIES DEVELOPMENT FUND - BOBASI 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 - Bobasi Constituency set out on pages 5 to 23, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and a 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, because of the significance 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-Bobasi Constituency as at 30 June 2017, and of its financial performance and its cash flows for the period 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. Inaccuracies in the Financial Statements

1.1 Variances Between the Figures in the Financial Statements and Schedules

There were variances between the figures in the financial statements and figures as reflected on the expenditure schedules as shown below;

Item	Financial Statements	Schedules	Variance
	Kshs	Kshs	Kshs

Transfer to primary schools	47,069,128	60,637,931	(13,568,803)
Transfer to health institutions	23,375,407	20,375,406	3,000,001
Fuel and lubricants	1,500,000	2,050,000	(550,000)
Total	71,944,535	83,063,337	(11,118,802)

1.2 Failure to Prepare a Trial Balance

The management did not provide for audit review a trial balance for the year ended 30 June 2017 and therefore it is not clear how the financial statements submitted for audit were prepared without a trial balance.

1.3 Inaccuracies in the Summary Statement of Appropriation

The summary statement of appropriation reflects an original budget of Kshs.81,896,552 and an adjustment of Kshs.137,058,939 bringing the total budget to Kshs.218,955,491. However, the adjustments have not been supported by an approved code list showing the 2015/2016 activities that were financed in 2016/2017.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed for the year ended 30 June 2017.

2. Compensation of Employees

The statement of receipts and payments reflects an amount of Kshs.2,089,506 in respect of compensation of employees. Included in this figure is an amount of Kshs.300,000 for fuel drawn by the Fund's vehicle GKB 776F but was posted to the payroll ledger thus overstating compensation of employees balance by Kshs.300,000.

Consequently, it was not possible to ascertain proper accounting classification and completeness of the compensation of employee's figure of Kshs.2,089,506

3. Use of Goods and Services

3.1 Fuel, Oil and Lubricants

The statement of receipts and payments reflects under use of goods and services a figure of Kshs.11,730,944 which includes an amount of Kshs.1,500,000 incurred on fuel, oil and lubricants. However, a review of payments vouchers in respect of fuel, oil and lubricants revealed that payments totaling to Kshs.550,000 were incurred but were omitted from the schedules, thus understating the amount incurred on fuel, oil and lubricants.

3.2 Other Operating Expenses

Included under use of goods and services figure of Kshs.11,730,944 is an amount of Kshs.906,442 on other operating expenses. However, supporting documents such as schedules and payment vouchers were not availed for audit review. Consequently, it was not possible to confirm the correctness of Kshs.906,442 incurred on other operating expenses.

3.3 Procurement of Goods and Services

Included in the use of goods and services figure of Kshs.11,730,944 is an amount of Kshs.3,021,386 under other committee allowances, out of which Kshs.1,300,000 was spent on accommodation, hire of conference facilities and capacity building. The goods and services were sourced directly from suppliers without inviting quotations contrary to Section 105 of the Public Procurement and Assets Disposal Act, 2015 which states that a procuring entity may use request for quotations when the estimated value of goods and services being procured is less than or equal to the prescribed maximum value for using quotations and for goods and services that are readily available in the market. Consequently, the management was in breach of the law.

Under the circumstances, the accuracy and completeness of Kshs.11,730,944 expenditure on use of goods and services could not be confirmed.

4. Other Grants and Transfers

Included under other grants and transfers balance of Kshs.32,880,280 is an amount of Kshs.8,570,280 on security projects. Management failed to undertake security projects worth Kshs.5,370,280 in the year under review despite the fact that the projects were financed by the Board. Cheques for the projects were drawn on 13 March 2017 but were later cancelled without replacement.

Consequently, the propriety of the expenditure of Kshs.5,570,280 could not be confirmed.

5. Fixed Assets Register

The summary of fixed asset register under Annex-4, reflects a total of Kshs.9,358,244 for the year ended 30 June 2017 from a balance of Kshs.8,572,993 in the previous year. The increase of Kshs.785,251 in the assets balance has not been explained.

Consequently, the accuracy and completeness of the summary of fixed assets balance of Kshs.9,358,244 for the year ended 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 - Bobasi 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 matter described in the Basis for Adverse Opinion and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budget Analysis

A comparison of budget and actual figures revealed variances as detailed below;

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Performance (%)
Compensation of employees	2,155,491	2,089,506	65,985	97
Use of goods and services	16,000,000	11,730,944	4,269,056	73
Transfers to other government entities	150,000,000	121,732,131	28,267,869	81
Other grants and transfers	50,800,000	32,880,280	17,919,720	65
Total	218,955,491	168,432,861	50,522,630	77

Analysis of the budget against the actual figures revealed that the Fund underspent on 4 items namely; compensation of employees, use of goods and services, transfer to other government units and other grants and transfers. The total amount budgeted was Kshs.218,955,491 and total amount spent was Kshs.168,432,861 leading to a variance of Kshs.50,522,630 representing 77%. Because of the under absorption the management could not achieve all its budgeted goals.

2. PMC Bank Balances

The management did not disclose the bank balances of various project management committee accounts as at 30 June 2017 contrary to Public Accounting Standards Reporting Template.

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 the management either intends to cease operations.

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 of Kenya. 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 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 judgment 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 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 October 2018