

**REPORT OF THE AUDITOR - GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BOMACHOGE BORABU CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017**

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**REPORT ON THE FINANCIAL STATEMENTS**

**Adverse Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Bomachoge Borabu Constituency set out on pages 6 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, 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 - Bomachoge Borabu 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. Inaccuracies in the Financial Statements**

**1.1 Use of Goods and Services**

Included in the use of goods and services figure of Kshs.10,530,545 in the financial statements is Kshs.4,054,185 for various expenditures tabulated here below, which reflects variances between the figures in the financial statements and the figures reflected on the expenditure schedules;

<b>Item</b>	<b>Financial Statements Kshs</b>	<b>Amount as per Schedules Kshs</b>	<b>Variance Kshs</b>
Fuel and lubricants	0	820,000	(820,000)
Other operating expenses	620,000	420,000	200,000
Routine maintenance of vehicles	420,000	715,166	(295,166)
Routine maintenance- other assets	527,542	292,000	235,542
Other committee expenses	2,486,643	3,336,000	(849,357)

<b>Total</b>	<b>4,054,185</b>	<b>5,583,166</b>	<b>(1,528,981)</b>
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In the circumstances, the accuracy and completeness of use of goods and services balance of Kshs.10,530,545 could not be confirmed.

## **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 possible to determine how the financial statements submitted for audit were prepared without a trial balance.

## **2. Cash and Cash Equivalents**

The statement of assets indicates that bank balances as at 30 June 2017 amounted to Kshs.1,738,378. However, the balance was not supported by a reconciliation statement and a certificate of bank balance. In addition, closing cash in hand balance of Kshs.1,901,980 recorded in the cash book at the close of the year was not disclosed in the financial statements nor supported by board of survey cash certificate.

Consequently, the correctness of cash and cash equivalents balance of Kshs.1,738,378 as at 30 June 2017 could not be confirmed.

## **3. Riokindo Water Project**

Included in other grants and transfers figure of Kshs.26,127,945 is an amount of Kshs.1,000,000 disbursed to Riokindo water project. Examination of documents relating to the payment revealed that the project was implemented during the year 2015/2016 through cheque No.1646. Further, the cheque was replaced with cheque No.1806 of 28 December 2016 without a corresponding reversal entry in the cash book.

Consequently, the propriety of the expenditure of Kshs.1,000,000 could not be confirmed.

## **4. Procurement Records Not Availed**

The statements of receipts and payments reflects Kshs.2,017,750 as payment on acquisition of assets. However, payment records and supporting documents for the expenditure were not availed for audit review.

Consequently, the propriety of the expenditure of Kshs. 2,017,750 spent on acquisition of assets could not be confirmed.

## **5. Funds Not Approved**

Included in other grants and transfers balance of Kshs.26,127,945 is Kshs.17,181,500 and Kshs.2,400,000 for tertiary institution bursaries and provincial administration respectively. However, payment vouchers for the expenditure items and approval minutes were not availed for audit review.

Consequently, it has not been possible to confirm the propriety of the expenditure totaling Kshs.19,581,500.

## **6. Emergency Projects**

Included in other grants and transfers balance of Kshs.26,127,945 is an amount of Kshs.1,340,000 spent on emergency projects. Scrutiny of payments relating to the projects funded during the year under review revealed that an additional Kshs.300,000 was paid to Kerongori SDA Primary School for the construction of a pit latrine. However, the amount was not posted to the emergency ledger thus understating the emergency balance.

Consequently, correctness and completeness of the emergency expenditure balance of Kshs.1,340,000 could not be confirmed.

## **7. Re-allocation of Funds**

Included in other grants and transfers figure of Kshs.26,127,945 is an amount of Kshs.1,340,000 related to emergency projects. However, examination of documents relating to emergencies funded during the year revealed that committee expenses amounting to Kshs.840,000 were charged to the emergency vote without approval from the Board contrary to Section 6(2) of the NG-CDF Act, 2015 which states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose with the approval of the Board.

Consequently, the management was in breach of the law.

## **8. Expenditures Not Supported**

Included in other grants and transfers balance of Kshs.26,127,945 is an amount of Kshs.446,985 relating to Mock and CATs. However, payment vouchers for these expenditure items were not availed for audit review.

Consequently, it has not been possible to confirm the propriety of the expenditure amounting to Kshs.446,985.

## **9. Administration Costs**

The statement of receipts and payments reflects a balance of Kshs.10,530,545 on use of goods and services. Vouching of expenditure schedules revealed that a total of Kshs.11,564,504 was spent on administration and services which was 9 % of the annual allocation contrary to Section 25(6) of the NGCDF Act, 2015 which requires that up-to a maximum of 6% of the total allocation for the constituency may be used for administration and recurrent.

Consequently, the management was therefore in breach of the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund -Bomachoge Borabu 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 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	5,380,000	1,231,268	4,148,732	23
Use of goods and services	9,120,689	10,530,545	(1,409,856)	115
Transfers to other Government entities	77,916,536	89,452,602	(11,536,066)	115
Other grants and transfers	37,351,365	26,127,945	11,223,420	70
Acquisition of assets	1,329,897	2,017,750	(687,853)	152
<b>Total</b>	<b>131,098,487</b>	<b>129,360,110</b>	<b>1,738,377</b>	<b>98</b>

Analysis of the budget against the actual figures revealed that the Fund overspent on items namely, use of goods and services, transfer to other government entities and acquisition of assets and also underspent on compensation of employees and other grants and transfers. The total amount budgeted was Kshs.131,098,487 and total amount spent was Kshs.129,360,110 leading to a net variance of Kshs.1,738,377 representing 98 % absorption rate.

No proper explanation has been provided for the significant over expenditures.

### 1. Progress and Follow Up of Previous Year Report

The management has not provided a status report on the progress made in resolving issues raised in the report for the financial year ended 30 June 2016 as required by Public Accounting Standards Reporting Template.

## Responsibility of the 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 liquidate the Fund or 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 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 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**

**21 September 2018**