

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BOMACHOGHE CHACHE 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 Chache Constituency set out on pages 20 to 40 which comprise the statement of assets as at 30 June 2017, and statement of receipts and payments, statement of cash flows and summary statement of appropriation recurrent and development combined 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 paragraph, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund-Bomachoge Chache 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 of Adverse Opinion**

#### **1. Inaccuracies in the Financial Statements**

##### **1.1 Unexplained Opening Balances**

Examination of the statement of receipts and payments for the year ended 30 June 2017 revealed that opening balances for several items were not correctly brought forward from the previous year's financial statements:

<b>Item</b>	<b>Opening Balance as per Statements Kshs</b>	<b>Audited Balance Kshs</b>	<b>Variance Kshs</b>
Compensation of Employees	1,618,876	1,051,738	(567,138)

Use of Goods and Services	5,779,928	6,288,746	508,818
Fixed Asset Register	37,693,420	27,005,345	(10,680,075)
Fund balances Brought Forward	834,548	10,627,879	(9,793,331)

No plausible explanation has been provided by management for the discrepancies.

## 1.2 Failure to Prepare a Trial Balance

The management did not provide for audit the trial balance for the year ended 30 June 2017. As a result, it is not clear how the financial statements submitted for audit were prepared in the absence of a trial balance.

## 1.3 Summary Statement of Appropriation

The summary statement of appropriation indicates an original budget of Kshs.81,896,552 and an adjustment of Kshs.45,333,335 resulting in a final budget of Kshs.127,229,887. However, the management has not provided evidence to show how the adjustment of Kshs.45,33,335 was arrived at.

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

## 2. Unconfirmed Use of Goods and Services Expenditure

The statement of receipts and payments reflects Kshs.4, 212,787 as expenditure on use of goods and services. However, a review of supporting documents as well as payment vouchers and schedules revealed total expenditure of Kshs.6,781,712. The resulting difference of Kshs.2,568,925 has neither been explained nor reconciled.

Consequently, the occurrence, accuracy and propriety of expenditure of Kshs.4,212,787 reported to have been incurred on goods and services for the year ended 30 June 2017 cannot be confirmed.

## 3. Acquisition of Assets

### 3.1 Construction of CDF Office

The statement of receipts and payments reflects expenditure totaling Kshs.7,705,000 incurred on acquisition of assets during the year under review. However, the following anomalies were noted in regard to construction of the NGCDF - Bomachoge Chache office block:

- i. Construction works started in June 2015 and were due for completion in December 2015. However, as at 30 June 2018 several works on the 1<sup>st</sup> floor

- including, plastering, fixing of door frames and the doors, window panes, floor tiles and installation of the ceiling as well as painting had not been done.
- ii. As at 28 August 2016, the management had paid a total of Kshs.17,368,405 on certified works which sum was equivalent to 88% of contract sum amounting to Kshs.19,843,860.
  - iii. Expenditure schedules availed for audit totaled Kshs.7,957,000 against payments totaling Kshs.7,705,000 reported in the financial statements leading to a variance of Kshs.252,000. No explanation has been provided by management for the anomaly.
  - iv. Records relating to retention funds held for the project were not availed for audit review.
  - v. It is clear that additional funds will be required to complete the project as substantial works remain undone relative to the sum of payments made on the project as shown below:

<b>First Floor</b>	<b>Details</b>	<b>Estimated Works not Done (Kshs.)</b>	<b>% Not Done</b>
Element No.2	Walling	130,080	30
Element No.3	Roof and Roofing	37,473	30
Element No.4	Doors	233,287	50
Element No 5	Windows	19,724	20
Element No.6	Finishers	1,172,675	50
Element No. 8	Fixtures	104,000	100
Element No. 9	Plumbing & Drainage	392,500	100
Element No.10	Electrical Installations	223,100	100
Element No.11	Painting & Decorations	632,750	100
<b>Total</b>		<b>2,945,589</b>	

In the circumstances, the accuracy and completeness of Kshs.7,705,000 expenditure reported to have been incurred on acquisition of assets for the year ended 30 June 2017 cannot be confirmed.

#### **4. Unexplained Compensation of Employees Expenditure**

Included in the compensation of employees balance of Kshs.2,993,287 is Kshs.435,624 paid as salaries for six employees for the months of October 2016 and February 2017. However, examination of the minutes that approved the payments revealed that the approval was for salary arrears for the month of March 2014. In addition, no documentary evidence was submitted to support the payment of the arrears as the previous certified financial statements disclosed nil balances on staff pending bills.

Consequently, the validity and correctness of compensation of employees' balance of Kshs.435,624 cannot be confirmed.

#### **5. Unaccounted for Transfers to Health Sector**

Included in transfers to other government entities balance of Kshs.42,926,000 is Kshs.2,800,000 disbursed to health institutions. However, the schedules availed for audit could only support expenditure totaling Kshs.1,500,000 resulting to overstatement of the item by Kshs.1,300,000 which expenditure was not supported by cashbook posting and schedules.

Consequently, the propriety of transfers to health institutions amounting to Kshs.1,300,000 cannot be confirmed.

#### **6. Unexecuted School Projects**

Included in transfers to other government entities balance of Kshs.42,926,000 is Kshs.18,900,000 disbursed to primary schools. Out of Kshs.18,900,000 disbursed, Egetuki Primary School and Machongo Primary School received Kshs.500,000 and Kshs.400,000 respectively for construction of class rooms. However, site inspections undertaken on 6 June 2018, revealed that no works had been done at the schools. Further, expenditure returns on the two projects were not availed for audit review.

Consequently, the propriety of expenditure totaling Kshs.900,000 disbursed to the two schools cannot be confirmed.

#### **7. Absence of a Fixed Assets Register**

The acquisition of assets opening fixed assets historical cost balance of Kshs.37,693,420 as at July 1 2016 shown in annex 4 has not been supported with a detailed assets register showing how the balance was arrived at. Further, additional assets of Kshs.7,705,000 acquired during the year had not been incorporated in the assets schedule as at 30 June 2017. Consequently, it has not been possible to confirm the accuracy, valuation and ownership by NGCDF - Bomachoge Chache of the fixed assets valued at Kshs.37,693,420 as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Bomachoge Chace 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 requirements applicable to performing audits of financial statements in Kenya. I believe that the 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 Adverse Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

### **Other Matter**

#### **1. Budget Analysis**

Comparison of budget and actual expenditure balances revealed the material variances below:

<b>Items</b>	<b>Budget Kshs.</b>	<b>Actual Kshs.</b>	<b>Variance Kshs.</b>	<b>Performance (%)</b>
Compensation of Employees	4,000,000	2,993,287	1,006,713	75
Use of Goods and Services	5,133,335	6,781,712	(1,648,377)	132
Transfer to Other Government Entities	62,391,552	42,926,000	19,465,552	69
Other Grants and Transfers	48,000,000	35,988,494	12,011,506	75
Acquisition of Assets	7,705,000	7,957,000	(252,000)	103
<b>Total</b>	<b>127,229,887</b>	<b>96,646,493</b>	<b>30,583,394</b>	<b>76</b>

Analysis of budgeted against actual expenditures revealed that the Fund underspent on three (3) items namely; compensation of employees, transfer to other government entities and other grants and transfers; but overspent on two (2) items namely use of goods and services and acquisition of assets. Overall, the total amount budgeted was Kshs.127,229,887 and total amount spent was Kshs.96,646,493 leading to a variance of Kshs.30,583,394 equivalent to 76% of the budget. Because of the under-absorption of expenditure, the management did not achieve its goals for the year under review.

## **2. Change of Project without Approval by the Board**

Included in transfers to other government entities balance of Kshs.42,926,000 reflected in the statement of receipts and payments is Kshs.20,200,000 being transfers to secondary schools. The expenditure in turn includes a disbursement of Kshs.1,000,000 made to Tendere Secondary School for purchase of a school bus. However, a site visit to the school on 5 June 2018 revealed that the school used Kshs.200,000 to purchase a photocopier and the remainder of the funds were transferred from National Bank account No.01285033696400 to Equity Bank account No.0510276335945. In the process, the management of the school re-allocated the funds without the authority of the Board contrary to Section 6(2) of the NG-CDF Act, 2015. Consequently, the management breached the law.

## **3. Funding of Devolved Government Functions**

Included in other grants and other payments balance of Kshs.35,988,494 is Kshs.2,200,000 and Kshs.870,000 for Agriculture and Roads projects respectively. However, even after the enactment of the NG-CDF Act, 2015 on 16 February 2016, the management continued to fund functions and activities prescribed for funding by the County Government contrary to Section 24 of the Act which states that projects funded under the Act shall be in respect of works and services falling within the functions of the national government under the Constitution. Consequently, the management breached the NG-CDF Act, 2015.

## **4. Irregular Procurements of Goods**

Included in the use of goods and services balance of Kshs.4,212,787 reflected in the Statement of receipts and payments is Kshs.400,000 incurred on procurement of office cabinets, chairs and desk-top computers. The goods were sourced directly from a supplier without inviting quotations contrary to Section 105 of the Public Procurement and Assets Disposal Act, 2015 which states that, for goods and services that are readily available in the market, a procuring entity may use request for quotations when the estimated value of purchase is less than or equal to the maximum value prescribed for procurement through quotations. Consequently, the management breached public procurement law.

## **Management's Responsibility 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 going concern basis of accounting unless the management is aware of the intention to liquidate the Fund or cease its 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 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.

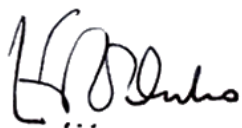
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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 offering 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 offering 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**

**15 November 2018**