

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Bonchari Constituency set out on pages 5 to 38, which comprise the statement of financial 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 - Bonchari 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 the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective manner.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

There were variances between the figures of the opening balances in the financial statements and figures of previous year audited balances as shown below;

Item	2015/2016 Audited Balances	Opening Balances 2016/2017	Variance
	Kshs.	Kshs.	Kshs.
Compensation to employees	1,888,253	1,498,925	389,328
Use of goods and services	6,085,998	4,034,101	2,051,897

Transfer to other government units	22,032,756	20,303,620	1,729,136
Other grants and transfers	93,704,220	55,402,871	38,301,349
Acquisition of assets	7,200,653	0	7,200,653
Total financial assets	30,309,138	27,462,037	2,847,101
Fund Balance b/fwd 1 July	48,488,561	4,235,897	44,252,664
Surplus/Deficit	18,179,423	31,697,934	13,518,511

In addition, Note 3 and 4 are missing while compensation of employees shown as Note 4 instead of 2 indicate a figure of Kshs.1,817,843 instead of Kshs.1,965,681 shown in the statement of receipts and payments for the year under review.

Consequently, the accuracy and completeness of the financial statements could not be confirmed.

2. Summary Statement of Appropriation; Recurrent and Development

The summary statement of appropriation indicates an original budget of Kshs.81,896,551 and an adjustment of Kshs.94,915,387 bringing the total budget of Kshs.176,811,939. However, the management did not provide schedules of projects earmarked for implementation from the funds rolled over from the previous year.

In the absence of the list of any earmarked projects, the rolled over funds may not be utilized for the intended purpose.

3. Cash and Cash Equivalents

The financial statements reflects a bank balance of Kshs.9,376,590 as at 30 June 2017. A review of the bank reconciliation statement as at 30 June 2017 revealed inclusion of stale cheques amounting to Kshs.651,431 which had not been reversed in the cash book.

Consequently, accuracy and completeness of the cash and cash equivalents balance of Kshs.9,376,590 could not be confirmed.

4. Re-allocated Funds Without Approval

Included under transfers to other government units balance of Kshs.85,737,931 is Kshs.19,400,000 disbursed to drill boreholes in four secondary schools. However, no board approval was availed for the re-allocations as required by the National Government Constituencies Development Fund Act, 2015.

Consequently, the management was in breach of the law.

5. Sports and Environment Grants

Included under other grants and transfers balance of Kshs.58,035,862 is Kshs.1,637,931 and Kshs.1,637,931 relating to sports and environment activities respectively. However, project returns supporting the expenditures were not provided for audit review.

Consequently, the accuracy and propriety of the total expenditure of Kshs.3,275,862 on sports and environment projects could not be confirmed.

6. Emergency Payments

Included under other grants and transfers amount of Kshs.58,035,862 is Kshs.4,600,000 for emergency grants. However, a review of supporting schedules revealed that Kshs.300,000 paid to Itibo ELCK Primary School was omitted from the amounts reported as emergency grants.

Consequently, the management understated emergency grants by Kshs.300,000 for the year ended 30 June 2017.

7. Bursary Distribution

Included under other grants and transfers balance of Kshs.58,035,862 is Kshs.39,580,000 bursaries for secondary and tertiary institutions. However, the bursary payments were not supported by approval minutes of the constituency development committee and bursary sub-committee.

Consequently, the propriety of Kshs.39,580,000 paid as bursaries could not be confirmed as correct.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Bonchari 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 matter described in the Basis for Qualified Opinion section 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;

Items	Budget Kshs.	Actual Kshs.	Variance Kshs.	Performance (%)
Compensation of employees	2,913,953	1,965,681	948,272	67
Use of goods and services	10,433,565	9,856,346	577,219	94

Transfer to other government entities	86,559,427	85,737,931	821,496	99
Other grants and transfers	76,904,995	58,035,862	18,869,133	75
Total	176,811,940	155,595,820	21,216,120	

Analysis of the Funds budget against the actual figures revealed that the constituency underspent on 4 items namely; compensation of employees, use of goods and services, transfers to other government entities and other grants and transfers. The total amount budgeted was Kshs.176,811,940 and total amount spent was Kshs.155,595,820 leading to a variance of Kshs.21,216,120 representing an absorption rate of 88%. Because of the under absorption the Fund could not achieve its budget goals.

2. Project Verification

During the year under review, nineteen (19) projects costing Kshs.32,850,000 were physically verified in June 2018. Nine (9) projects had been completed and in use. Nine (9) projects costing Kshs.19,750,000 were ongoing and one had not started as detailed below;

Project	Project Activity	Amount Kshs.	Observation
Nyasagati primary school.	Renovation flooring, painting doors windows	750,000	Renovation, flooring, painting doors and windows fixing completed.
Nyangoge girls Secondary	Dormitory project foundation	750,000	Dormitory project commenced from foundation and is ongoing.
Sugunana primary school	Construction of one classroom.	400,000	Construction of one classroom on going
Bitare secondary school	Construction of laboratory	1,000,000	Construction of Laboratory on going
Gesero secondary school	Ongoing classes construction and school bus financing	3,000,000	Construction of classrooms on going and school bus financing completed
Isamwera primary school	Borehole project	4,950,000	Borehole project drilling and equipping done and project on going
Riamagige primary school	Roofing and latrine construction	1,250,000	Roofing completed and latrine construction on going.
St. Lawrence Nyabieyo	Laboratory Construction	1,200,000	Laboratory construction on-going.

secondary school.			
Iruma secondary school	Construction of storeyed classrooms.	6,450,000	Construction of storeyed classrooms project is ongoing and borehole project completed.
lyabe hospital	Construction of ward	1,750,000	* Not started
Total		21,500,000	

The ongoing projects should be completed to enable the residents access planned services.

3. Projects Not Implemented

Included under grants and other transfers balance of Kshs.58,035,862 is a grant of Kshs.1,300,000 and Kshs.1,750,000 in respect of emergency and security grants respectively. Physical inspection of the projects in the month of June 2018 revealed that works had not been implemented as shown below;

Project	Particulars	Amount Kshs	Remarks
Itierio primary school	Construction of pit latrines	300,000	Project not implemented
Masagoye primary school	Construction of pit latrines	450,000	Project not implemented
Bitare SDA primary School	Construction of toilet	250,000	Project not implemented
Bomariba primary school	Construction of latrines	300,000	Project not implemented
Riana chiefs office	Construction of office	1,750,000	Project not implemented
Total		3,050,000	

Consequently, the residents have been denied essential services.

4. Non-disclosure of Project Management Committees (PMC) Bank Balances

The financial statement reflects cash and cash equivalents of Kshs.9,376,590, However, PMC cash and bank balances as at 30 June 2017 have not been disclosed in the financial statements as required.

Consequently, the management did not comply with the requirements of Public Sector Accounting Standard Board 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 liquidate the Fund or cease operations or have no realistic alternatives 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 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 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 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