

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND- EMBAKASI SOUTH 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 - Embakasi South Constituency set out on pages 7 to 23, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provision 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 - Embakasi South 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

### **Basis for Adverse Opinion**

#### **1. Unsupported Prior Year Adjustment**

The statement of assets as at 30 June 2017 and the statement of cash flows for the year then ended reflects unsupported prior year adjustment of Kshs.3,452,061 whose nature and purpose has not been explained. Consequently, the validity of the adjustment cannot be confirmed.

#### **2. Acquisition of Assets**

The statement of receipts and payments for the year ended 30 June 2017 reflects an expenditure of Kshs.70,998 against acquisition of assets which differs with the total amount of Kshs.919,797 disclosed under Note 8 to the financial statements. The resulting difference of Kshs.848,799 has not been explained.

#### **3. Construction of a Dormitory at Embakasi Girls Secondary School**

The Fund contracted Fanstac Agencies to construct a dormitory at Embakasi Girls Secondary School at a cost of Kshs.36,107,593. The first phase of the project comprising of

foundation, ground floor up to slab was to cost Kshs.13,091,655. The second phase comprised of 1st floor, second floor up to roofing and finishing and was to cost Kshs.23,015,938. Physical inspection and verification of the project on 13 April 2018 revealed that the project comprising ground floor, 1st floor, second floor, roofing and finishing was almost complete.

However, the management did not present for audit review all payment certificates issued since the beginning of the project. In addition, only two payment vouchers amounting to Kshs.8,771,618 were presented for audit review. The remaining expenditure of Kshs.27,335,975 in respect of the project was not supported by payment certificates and vouchers. In the circumstances, it is not possible to confirm the validity of the expenditure of Kshs.27,335,975 or whether the funds were utilized for the project purposes as intended.

#### **4. Substandard Works at Villa Police Station**

Monamax Limited was paid Kshs.5,500,000 for the construction of offices at Villa Police Station. However, procurement documents and records detailing how the firm was identified, evaluated and awarded the contract were not produced for audit review. Consequently, the validity of the contract amounting to Kshs.5,500,000 cannot be confirmed.

A physical verification of the project revealed that the works were not done according to the standards expected of a security installation for instance, the holding cell was constructed with wooden ceiling instead of concrete slab. In addition, the ventilation height at the holding area was just above head height which may compromise safety. In the circumstances, the project was not effectively implemented and the public did get value for money from the works.

#### **5. Substandard Works at Reuben Police Post**

Epstar Construction Limited was paid Kshs.5,008,089 for the proposed extension of two offices and construction of toilets at Reuben Police Post. However, procurement documents and records detailing how the firm was identified, evaluated and awarded the contract were not produced for audit review. Consequently, the validity of the contract amounting to Kshs.5,008,089 cannot be confirmed.

Project verification revealed that the office block measuring approximately seven metres square was already developing cracks. Generally, the works were substandard and not commensurate with the amount spent. In the circumstances, the project was not effectively implemented and the public did not get value for money from the works.

#### **6. Missing Payment Vouchers and Unsupported Expenditure**

The Fund incurred expenditure amounting to Kshs.33,061,606.90 through several payment vouchers as listed in the cash book and annual expenditure returns. However, the payment vouchers were not presented for audit to establish whether the expenditure was a proper charge to public funds. In the circumstance, the validity and propriety of expenditure amounting to Kshs.33,061,606.90 as reflected in the cashbook cannot be confirmed.

#### **7. Other Grants and Transfers**

Other grants and transfers expenditure of Kshs.70,202,945 reflected in the statement of receipts and payments includes an amount of Kshs.33,466,652 on bursaries to secondary and tertiary institutions. However, by the end of the financial year cheques amounting to Kshs.3,452,000 had not been presented for payment by the recipients.

It was also noted that during the month of September 2016, the fund prepared bursary cheques totalling Kshs.5,858,000 as per cheque counterfoil details. However, the cheques were not given to the beneficiaries until January 2017. In addition, cheque counterfoils No. 4501 and 6501 among others with bursary details were not produced for audit review. In the circumstances, the validity of expenditure incurred on bursaries to secondary and tertiary institutions cannot be confirmed.

## **8. Net Financial Position**

The statement of assets as at 30 June 2017 reflects net liabilities instead of net financial position of Kshs.3,840,501, being the difference between the brought forward negative fund balance of Kshs.6,225,070 and the surplus for the year of Kshs.6,613,510 and prior year adjustment of Kshs.3,452,061. No explanation has been provided for this anomaly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Embakasi South 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 judgement, are of most significance to the audit of the financial statements. Except for matter described in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

## **Other Matter**

### **1. Budget and Budgetary Controls**

During the year under review, the fund budgeted to spend Kshs.142,657,339. However, overall actual expenditure for the year was Kshs.92,668,563.42 resulting in an under expenditure of Kshs.49,988,775.58 which is equivalent to about 35% of the total budget. The under expenditure was mainly on transfers to other Government units at Kshs.11,342,827 and other grants and transfers at Kshs.38,483,583. The under expenditure is an indication that approved programs were not fully implemented.

Further analysis of the budget against actual expenditure indicate that administration expenses for the year amounted to Kshs.10,685,385 against a budget of Kshs.10,847,752 resulting in an under expenditure of Kshs.162,367. Out of the development budget of Kshs.131,809,587 an amount of Kshs.81,983,178 was spent resulting in under expenditure

of Kshs.49,826,409 or 38%. This implies that some budgetary provisions and plans were not met and which impacted negatively on service delivery by the Fund to the constituents

## **Responsibility 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 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 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 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 sustaining 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 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**

**19 September 2018**