

**REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT
CONSTITUENCIES DEVELOPMENT FUND - EMBAKASI WEST 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 - Embakasi West Constituency set out on pages 5 to 27, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flow 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 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 - Embakasi West 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. Differences Between Financial Statement Balances and Ledger Balances

The following differences were noted between balances in the statement of receipts and payments/notes to the financial statements and balances in the ledger:

Account Details	Balance Reflected in the statement of Receipts and Payments/Notes (Kshs)	Balance Reflected in the Ledger (Kshs)	Variance (Kshs)
Other grants and other payments			

Bursary (secondary, tertiary and special schools)	15,243,000	16,502,000	(1,259,000)
• Water Projects	664,000	-	664,000
• Sports	2,247,495	-	2,247,495
• Other capital grants and transfer	1,927,938	-	1,927,938
• Emergency projects	8,992,320	-	8,992,320
Acquisition of assets	300,000	-	300,000
Use of goods and services	5,291,710	262,800	5,028,910
	<u>34,666,463</u>	<u>16,764,800</u>	<u>17,901,663</u>

2. Difference Between Summary of Fixed Assets Register (Annex 4) and Assets Register

Annex 4 to the financial statements-summary of fixed assets register reflects a balance of Kshs.980,164. However, the asset register provided for audit verification had a balance of Kshs.1,423,829 resulting in un-reconciled variance of Kshs.443,665. Further the asset register maintained by the Fund include items such as utensils which ordinarily do not qualify to be capitalized.

3. Pending Payables

Note 15.2 to the financial statements reflects pending staff payables balance of Kshs.775,000 as at 30 June 2017. However, the analysis at annex 2 reflects the same balance outstanding but for the financial year ended 30 June 2016.No satisfactory explanation has been provided for failure to clear these long outstanding payables. Further, Note 15.3 to the financial statements reflects other pending payables balance of Kshs.59,146,551 but the analysis at annex 3 reflects a balance of Kshs.14,137,957 resulting in an un-explained difference of Kshs.45,008,594.

4. Cash and Cash Equivalents

The statement of assets reflects a bank balance of Kshs. 860,402 as at 30 June, 2017. A review of bank reconciliation statement for June 2017 revealed that un-presented cheques amounted to Kshs.1,375,831 as at the close of the year. Included in the list of un-presented cheques are three stale cheques totalling to Kshs.120,365 that were issued between June 2016 and September 2016 as tabulated below:

Date	Payee	Cheque No.	Amount Kshs.
27/06/2016	Commissioner of Domestic Taxes	4200	10,365
30/07/2016	Unity College	4236	10,000
30/09/2016	Zingira Cleans Project	4299	100,000
Total			120,365

It is not clear why the stale cheques were not reversed in the cash book. In the circumstances, the accuracy of the bank balance of Kshs.860,402 as at 30 June 2017 cannot be confirmed.

5. Net Financial Position

The statement of assets as at 30 June 2017 reflects net liabilities instead of net financial position of Kshs.860,402 being the difference between the brought forward fund balance of Kshs.1,943,723 and the deficit for the year of Kshs.1,083,321. No explanation has been provided for this anomaly.

6. In-eligible Expenditure

The statements of receipts and payments reflects expenditure of Kshs.6,030,813 in respect of other grants and transfers which includes Kshs.664,000 for water projects. Water is a devolved function under the Constitution. The expenditure was, therefore, incurred contrary to Section 24 of the National Government Constituency Development Fund Act, 2015 which limit projects to be funded by National Government Constituency Development Fund to those falling under the National Government function. Consequently, the National Government Constituencies Development Fund Board and the Embakasi West Constituency Development Fund Committee are in breach of the law and the expenditure is in-eligible.

7. Transfers to Other Government Units

The statement of receipts and payments reflects transfer to other government units' expenditure of Kshs.24,333,784 and as disclosed at Note 6 to the financial statements. However, out of the transfers, an amount of Kshs.24,258,820 was transferred to the Project Management Committees for projects which had not commenced as at the close of the financial year as analyzed below:

Date	Payee	Details	PV No.	Amount Kshs.	Financial Year
04.05.17	Tumaini Primary School	Construction of perimeter wall	74	5,000,000	2016-17
26.05.17	School Furniture for primary schools	School furniture for public primary schools	77	4,491,173	2016-17
17.02.17	Umoja I primary school	Construction of swimming pool	51	5,767,647	2015-16
21.02.17	Buruburu I primary school	Construction of Autism Block	54	4,000,000	2015-16
06.04.17	Buruburu I primary school	Construction of Autism Block	64	5,000,000	2016-17
Total				24,258,820	

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies

Development Fund - Embakasi West 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. Non-compliance with Procurement Procedures

Three contracts worth Kshs.12,582,165 were awarded without advertising in a dedicated Government tenders' portals or in the Fund's own website, or a notice in at least two daily newspapers of nationwide circulation as required by law as detailed below:

Contractor	Details	PV No	Amount (Kshs.)
ID Electricals Services	Construction of Administration Police Post at Kariobangi Chiefs Camp	66	4,205,401
Invent Contractors	Construction of Police Post at Buruburu Riverside Estate	67	4,198,740
Genajo Designers & building Contractors	Construction of Police Post at Tena Estate Chiefs Camp	68	4,178,024
	Total		12,582,165

In the circumstances, the fund was in breach of the law.

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 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

19 September 2018