

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Emuhaya Constituency set out on pages 5 to 26, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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-Constituency Development Fund - Emuhaya Constituency as at 30 June 2017, and of its performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standard (Cash Basis) and 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, except for the matters raised in the Basis of Qualified Opinion section, I confirm that nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Irregular Use of Unspent Funds for the Year 2015/2016

In 2015/2016 financial year, a total of Kshs.58,253,703 that had been budgeted for was received when the financial year was ending. However, the money formed part of the expenditures in 2016/2017 financial year notwithstanding the pending programmes of previous period without approval or authorization from the board showing the areas/projects where it should be expended.

There were variations made by the accounting officer in the 2016/2017 budget estimates that had been approved by the NG-CDF Board without proper explanation on the basis of such kind of adjustments as shown below:

Receipt/Expense Item	Original Budget Approved by NG- CDF BOARD	Adjustments	Final Budget
	Kshs.	Kshs.	Kshs.
Receipts			
Transfer from NG-CDF Board	81,896,552	58,253,703	140,150,254
Total	81,896,552	58,253,703	140,150,254
Payments			
Compensation of Employees	2,950,943	291,750	3,242,694
Use of goods and Services	4,419,746	284,314	4,704,060
Transfer to Other Government Units	23,720,000	3,7288,583	61,008,853
Other grants and transfers	50,805,862	20,388,785	71,194,648
Total	81,896,552	58,253,703	140,150,254

In the absence of approval or authorization from the national CDF Board for use of the 2015/16 funds in 2016/17, this was an irregular application of public funds.

2. Transfer to Other Government Entities

2.1 Land for Bunyore Teachers Training College

Included in the transfer to other government entities of Kshs.61,008,853 is an amount of Kshs.3,500,000 paid for purchase of land for Bunyore Teachers Training College, LR No. East Bunyore/Ebusamia/2598. However, from the review of the land purchase records, it was noted that the evaluation report dated 8 June 2016 shows that the land was valued at Kshs.3,500,000, which was again confirmed by the local valuers opinion through report dated 20 September 2016.

However, the sale agreement between the vendor and Fund management dated 15 August 2016 reveals that the Fund management agreed to pay the seller Kshs.4,200,000. There were no records or documents in support of excess payment of Kshs.700,000.

In the circumstances, public funds may not have been applied economically and lawfully to the intended purpose as planned.

2.2 Construction of Three Classrooms at Emwatsi Primary

Included in the transfers to other government entities of Kshs.61,008,853 is an amount of Kshs.1,500,000 paid for construction of three (3) classrooms at Emwatsi Primary School. However, verification of the project records revealed loopholes as follows:

- (i) One of the classrooms had one wall not done but instead, the contractor used a wall of an existing classroom as part of the new structure. No variation order was availed as evidence for deviation from the contract agreement. Floors for all the three (3) classrooms had cracks, an indication of poor workmanship.
- (ii) There were no project progress reports from the Inspection and Acceptance Committee and the Works Officer to ascertain that the works were being inspected as the project progresses. None compliance with the Public Procurement and Assets Disposal Act, 2015 on inspection and acceptance report could have led to wrong specifications and poor workmanship and thus public funds might not have been applied lawfully and economically.
- (iii) There were no original tender documents for the successful contractor. Other requirements like NCA certificate and tax compliance certificate were also not availed for audit review.

3. Other Grants and Transfers

3.1 Lack of Acknowledgement/Returns for Bursary Funds

Included in other grants and transfers of Kshs.71,159,965 in the financial statements is Kshs.5,388,000 for bursaries to needy students for higher education and Kshs.18,178,400 for basic education, all totaling to Kshs.23,566,400.

However, only Kshs.2,489,700 for higher education and Kshs.11,602,268 for basic education disbursed was supported with acknowledgement letters/receipts from the recipient institutions. The total balance of Kshs.9,474,432 disbursed to both higher and basic education levels was not supported with either acknowledgement letters nor receipts.

In the circumstances, it was not possible to ascertain whether the funds disbursed reached intended beneficiaries, hence propriety of the expenditure could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Emuhaya 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 judgments, are of most significance in the audit of the financial statements of the year under review. Except

for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

Projects Implementation Status Reports

The analysis of project implementation status report as at 30 June 2017 revealed that the Fund had allocated funds for implementation of a total of 331 projects since 2013/2014 to 2016/2017 financial years. However, only 247 projects costing Kshs.168,791,521 had so far been completed. A total of 30 projects are still ongoing and Kshs.65,450,000 has already been paid for them. The status report also reveals that 4 projects have been ongoing since 2013/2014 and re-allocations have been done for 54 projects whose costs is Kshs.20,210,000.

The accounting officer did not give a justification/basis for failure to complete the 2013/2014 projects that have taken more than 3 years and the many re-allocations observed from the project implementation status report slow implementation of projects and thus leading to poor service delivery.

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 going concern basis of accounting unless the management either intends to liquidate the Fund or to close 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 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 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 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 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 consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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

28 December 2018