

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND–GATUNDU NORTH 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–Gatundu North Constituency set out on pages 5 to 21, 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: 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-Gatundu North 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 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 described in the Basis for Qualified Opinion and Other Matter sections of my report, 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 way.

Basis for Qualified Opinion

1. Unsupported Payments

The statement of receipts and payments reflects use of goods and services figure of Kshs.6,112,738 for the year under review. Included in the figure are payments for various goods and services amounting to Kshs.899,176 which were not adequately supported by documentations such as invoices, delivery notes and confirmation of goods and services received.

As a result, the regularity of use of goods and services payments of Kshs.899,176 for the year ended 30 June 2017 could not be confirmed.

2. Transfer to Other Government Entities

The statement of receipts and payments reflects transfers to other Government entities balance of Kshs.50,958,787 for the year ended 30 June 2017. However, physical

verification and examination of expenditure returns of sampled projects worth Kshs.8,242,440 revealed the following findings:

Project Name	Amount-Kshs.	Observations
Kanjuku Secondary School	2,542,440	Installation of electricity was not fully done as only electricity wires installed, bulb holders were faulty and loosely fixed. The main electricity line not properly done and electricity poles were erected in the dormitory.
Mukurwe Secondary School	3,000,000	Landscaping, electricity connection, doors and windows not done. Tiles put in only 3 out of the 8 classrooms and no roofing and verandah incomplete
Iruri Secondary School	1,500,000	Poor workmanship was confirmed during physical verification. Visible cracks in two classrooms used by form 1 and 2 an indication of poor workmanship Procurement documents in respect of the construction works were not provided for audit review.
Gichuka Primary School	1,200,000	Unutilized funds meant for purchase of land for the school and lack of teachers in school
Total	8,242,440	

As a result of the above anomalies, the regularity of the transfer and other Government payments for the year ended 30 June 2017 could not be confirmed.

3. Other Grants and Other Payments

The statement of receipts and payments reflects other grants and transfers figure of Kshs.42,008,800 for the year under review. However, examination of records in respect of sports, bursary, security, and emergency projects totaling Kshs.35,416,270 revealed the following irregularities :

Expenditure Item	Amount Kshs.	Observations
Sports	663,795	Expenditure returns, bank statements, procurement and stores records were not provided for audit verification.
Bursary Funds	25,936,000	Payment of bursaries to various students below the recommended amount by the CDFC.

Expenditure Item	Amount Kshs.	Observations
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Security Projects	5,400,000	Aluma AP Post-Kshs.1,800,000 paid -did not have electricity and visible cracks were noted; Matara AP Post- Kshs.1,800,000- did not have electricity water yet it was in the BQ. Visible cracks were also noted Kanyona AP Post -Kshs.1,800,000 no electricity, water and the interior finishes on the houses were poorly done.
Emergency Project Machaikai Primary School	3,416,475	Visible cracks appearing on the front wall an indication of poor workmanship.
Total	35,416,270	

In the circumstances, the regularity of other grants and transfers of Kshs.42,000,800 for the year ended 30 June 2017 could not be confirmed.

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

Budget Performance

The summary statement of appropriation; recurrent and development combined reflects actual receipts for the year of Kshs.107,963,040 against actual expenditure of Kshs.103,043,310 representing absorption rate of 91% as analyzed below:

Item	Budget Amount- Kshs.	Actual Amount - Kshs.	Variance - Kshs.	Absorption Rate %
Receipts	107,963,040	107,963,040	0	100
Payments				
Compensation of Employees	2,912,178	1,395,981	(1,516,197)	48
Use of goods and services	5,425,000	6,112,738	687,738	113
Transfer to Other Government Units	62,644,206	50,958,787	(11,685,419)	81

Other grants and transfers	35,414,656	42,008,804	6,594,148	119
Acquisition of Assets	1,567,000	2,567,000	1,000,000	164
Total	107,963,040	103,043,310	(4,919,730)	95

The above table shows that the CDF incurred over expenditure on use of goods and services, other grants and transfers and acquisition of assets totaling Kshs.8,281,886. However, no approval or explanation for the over expenditure was provided for audit review.

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 Government either intends to liquidate the Fund or to 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:

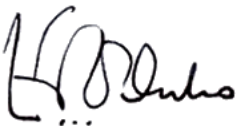
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

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 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 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

7 November 2018