

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – HOMA BAY TOWN 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 – Homa Bay Town Constituency set out on pages 5 to 48, 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, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of National Government Constituencies Development Fund – Homa Bay Town 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 National Government Constituencies Development Fund Act, 2015.

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

Basis for Adverse Opinion

1. Inaccuracies in Financial Statements

1.1 Comparative Figures

The following differences were noted between financial statements for the year under review and comparative balances in the 2015/2016 statement of receipts and payments:

Item	Statements of Receipts and Payment 2015/2016 Kshs.	Comparative Figures 2016/2017 Kshs.	Difference Kshs.
Compensation of employees	2,612,656	2,611,756	900
Use of goods and services	18,223,402	16,624,302	1,599,100

Transfers to other Government units	41,500,000	42,900,000	(1,400,000)
Other grants and transfers	49,060,401	49,260,401	(200,000)
Summary of fixed asset register	23,709,000	23,744,000	(35,000)

Consequently, the accuracy of the financial statements for the year ended 30 June 2017 cannot be confirmed.

1.2 Project Management Committee Bank Balances

Included in the financial statements under Note 15 and Annex 5 are Project Management Committee (PMC) account balances amounting to Kshs.269,913 that were not supported by bank certificates..

Consequently, the accuracy and validity of the aggregate PMC bank balances cannot be confirmed.

2. Payments for Use of Goods and Services

Included in financial statements under Note 5 is use of goods and services expenditure of Kshs.11,690,038. However, the following observations were made in relation to the expenditure:

- i. An amount totalling Kshs.10,113,570 to undertake the Constituency Development Fund Committee facilitation, trainings, monitoring & evaluation of constituency administrative sittings, committee allowances & purchase of assorted office items on various projects was not accounted for.
- ii. Project Management Committee minutes were not availed to confirm actual authorization and occurrence of the activities.
- iii. No receipt vouchers (S13), stores ledgers and issue vouchers (S11) were presented to confirm purchase of the goods and their issuance from stores for consumption.

Therefore the management contravened Section 184 (I) of the Public Finance Management Regulations which states that all receipts and payment vouchers of public moneys shall be properly supported by appropriate authority and regulations.

Consequently, the occurrence and propriety of the expenditure of Kshs.10,113,570 cannot be confirmed.

3. Prior-year Issues

During the year under review, the Fund did not resolve all the issues highlighted in the report of the Auditor-General of the previous 2015/16) year. Failure to address the issues contravenes the reporting requirements set by the Public Sector Accounting Standards Board.

4. Misclassification of Emergency Funds

Included in the financial statements under Note 6 is Kshs.34,180,000 being transfers to other Government units. The amount includes Kshs.1,000,000 transferred under emergency to Kuja Mixed Secondary School and Bishop Okullu Magare Girls Secondary at Kshs.500,000 each, thereby overstating transfers to other Government units and understating emergency projects balance by Kshs.1,000,000 contrary, to Section 43(1) of the Public Finance Management Act,2012.

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 Adverse Opinion section, I have determined that there are no key audit matters to communicate in my report

Other Matter

1. Budget Analysis

During the year under review, the Fund had a final budget of Kshs.100,691,278 while the actual expenditure amounted to Kshs.100,650,837 representing an aggregate under-absorption of Kshs.40,441 equivalent to 1% of the total budget. The under-absorption mainly occurred on transfers to other government units where the budget was under-absorbed by 35%. In addition, over -expenditures were noted on other grants and transfers by 30% and use of goods and services by 160%. Budget analysis revealed the following material variances between budgeted balances and actual amounts;

Item	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Percentage Variance
Transfers to other government units	52,467,232	34,180,000	18,287,231.95	65%
Other grants and transfers	39,010,812	50,838,200	(11,827,387.60)	130%
Other payments	2,1000,000	1,450,000	650,000	69%
Use of goods and services	4,490,690	11,690,038	(7,199347.90)	260%

No evidence was made available to show that that these material over- expenditures were authorized as required. Further, the original budget was adjusted by Kshs.18,794,726.25 against unspent balances for the financial year 2015/16 under Note IV - Summary Statement of Appropriation. However, there was no document showing that a new list of projects was submitted to the Board for approval as per Section 26(1) of the National Government Constituencies Development Act, 2015.

Consequently, the constituents were denied the benefits that could accrue from the implementation of some of the budgeted projects.

2. Project Expenditures

Note 6 to the financial statements reflects transfers to other government entities totaling Kshs.34,180,000.00. The transfers were made to various secondary and primary schools in the year under review. Project verification and examination of related documents revealed that the Project Management Committees did not file returns for Shauri Yako Primary School and Bishop Okullu Magare Girls amounting to Kshs.1,000,000 and Kshs.500,000 respectively. None-filing of returns contravenes Section 15 (1) of the National Government Constituencies Development Fund Act, 2015 which states that there shall be appointed a project management committee for each project in a constituency that shall implement projects in consultation with the relevant departments of government, maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented, open and maintain an independent bank account for each project and prepare returns and file them with the Constituency Development Fund Committee.

Consequently, the propriety of the expenditure of Kshs.1,500,000 cannot be confirmed.

3. Purchase of Desks and Chairs

Included in the financial statements under Note 6 are transfers to other government entities amounting to Kshs.34,180,000 which include procured desks and chairs from a youth group for Kshs.505,000 through payment voucher No.3 of 01 February 2017. However, requisitions, quotations, local purchase order, invoice, delivery note, inspection and acceptance committee minutes, ledger card, issue voucher and list of beneficiaries were not provided. This is contrary to Section 104(1) of the Public Finance Management Regulations, 2012 states that all receipts and payment vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by appropriate authority and documentation.

Consequently, the occurrence and propriety of the expenditure of Kshs.505,000 cannot be confirmed

4. Construction of Roads

Included in the financial statements under Note 7 is an other grants and payments aggregate balance of Kshs.50,838,200 which includes Kshs.26,155,000 for opening, grading, gravelling and installing culverts on various roads within the constituency. However, the road projects were not approved and budgeted for, roads were also not branded and as a result, the existence of the works reported could not be confirmed. Project management committee returns inclusive of tender documents, certificates of completion, bills of quantities and bank statements were not availed for audit review. Further, the categories of roads rehabilitated were devolved to the county governments and therefore the involvement of National Government funds in their construction was unlawful as per Section 24(a) of the National Government Constituencies Development Fund Act 2015, which states that a project under this Act

shall only be in respect of works and services falling within the functions of the national government under the Constitution.

Consequently, the propriety and regularity of the expenditure of Kshs.26,155,000 incurred on roads cannot be confirmed and further, the management breached the Law.

5. Payment for Sports Activities

Included in the financial statements under Note 7 are other grants and payments of Kshs.50,838,200 which includes Kshs.2,785,800 spent on sporting activities but which amount was not supported by pre-numbered receipts, signed payment schedules, programs, tender documents, stores ledger and receipt/issue vouchers. In addition, payments amounting to Kshs.1,050,000 were paid through imprests advanced to an officer through warrant No.2640725 of 10 November 2016 of Kshs.450,000 and No. 2640676 of 14 November 2016 of Kshs.600,000. This contravened the Public Procurement and Assets Disposal Regulations, 2016 that limit low value procurements to Kshs.30,000 and Section 104(I) of Public Finance Management Regulations, 2015 stipulate that all receipts and payment vouchers of public moneys shall be supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

Consequently, the occurrence and propriety of the expenditure of Kshs. 2,785,800 cannot be confirmed.

6. Emergency Funds

Included in the financial statements under Note 7 are other grants and other payments totaling Kshs.50,838,200 which include emergency fund balance of Kshs.3,707,000 out which Kshs.3,300,000 was spent on the projects listed below:

No.	Project	Amount (Kshs)
1.	Kanyabala Chief's Office	600,000
2.	Rodi Chief Camp	500,000
3.	Maguti Primary School	400,000
4.	Imbo Health Centre	1,000,000
5.	Got Kokech Primary School	400,000
6.	Miyare Co. advocates	400,000
	Total	3,300,000

However, the following anomalies were observed in relation to the expenditures:

- Imbo Health Centre was funded at Kshs.1,000,000 despite health having being a devolved supposed to be funded by the County government. Further, the building was not completed.

- The project files for these projects were not made available for audit review.
- Physical verification at Kanyabala Chiefs Camp on 16 May 2018 indicated that the building was still incomplete. Plastering, floor tiling, ceiling, window glasses, painting and fittings had not been done.
- The nature and details of the court case No.CMCC 5234 of 2015 and H/bay CMCC No.4 of 2016 relating to Miyare Company Advocates was not provided.

These activities did not appear urgent and unforeseen and therefore emergency funds should not have been expended on them. The expenditures contravened Section 8(3) The National Government Constituencies Development Fund Act, 2015 which states that emergency shall be construed to mean an urgent and unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of constituents.

Consequently, the regularity of the expenditures totaling Kshs.3,300,000 cannot be confirmed and also the Fund breached the law.

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 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 its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management is aware of the intention 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 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 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 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

01 February 2019