

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ISIOLO SOUTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituency Development Fund – Isiolo South Constituency set out on pages 5 to 19, 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 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 – Isiolo 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 comply with National Government Constituencies Development Fund Act, 2015

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that nothing else has come to my attention to cause me believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1.0 Presentation of the Financial Statements**

The International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board requires that list of projects implemented by the entity be included in the financial statement. However, a review of the financial statements for the year under review revealed that list of projects was not included in the financial statements

In consequence, the presentation of the financial statements for the year under review did not conform to the approved and prescribed reporting template.

#### **2.0 Cash and Cash Equivalents**

The statement of assets reflects cash and cash equivalents balance of Kshs.174,907 as at 30 June 2017. However, a review of the bank reconciliation statement as at 30 June 2017 showed unrepresented cheques totaling to Kshs.881,160 which included stale cheques of Kshs.527,160 which had not been reversed in the cash book or reissued.

In the circumstance, the accuracy and completeness of cash and cash equivalents balance of Kshs.174,907 could not be ascertained.

### **3.0 Unsupported and Irregular Project Expenditure**

Note 5 and 6 to the financial statements for the year under review reflected an expenditure of Kshs.12,000,000 and Kshs.72,574,089 on transfers to other government entities and other grant and transfers respectively both totaling to Kshs.84,574,089 spent on implementation of various projects under primary and secondary schools, bursaries, mock & cat, water, security, roads, sports and emergency projects. However, the Fund did not compile, maintain and table records showing all receipts, disbursements and actual expenditures on a monthly basis in respect of every project and sub-project as required by Section 38(a) of the National Government Constituencies Development Fund (NGCDF) Act, 2015. Further, expenditure returns on funds disbursed to the projects as required by Section 11 (w) of the National Government Constituencies Fund regulations, 2016 were not provided for audit review.

Under the circumstance, the Fund was in breach of the law and the propriety and value for money of the Kshs.84,574,089 expenditure as at 30 June 2017 could not be ascertained.

### **4.0 Unsupported Transfers to Primary and Secondary Schools**

Note 5 to the financial statements for the year under review reflected an expenditure of Kshs.12,000,000 in respect to other grants and transfer to other government institutions which included Kshs.5,400,000 and Kshs.6,600,000 spent on transfers to primary and secondary schools respectively. However, the respective project files containing bank statements, project management committee minutes, BQ's, inspection and acceptance committee minutes, partial and final completion certificates from the department of public works were not provided for audit. Further, no evidence was provided to confirm that the projects were implemented in consultation with the relevant government departments contrary to Section 15(1) of the National Government Constituencies Fund Regulations, 2016.

In the circumstances, the authenticity and value for money of the Kshs.12,000,000 expenditure on transfer to primary and secondary schools as at 30 June 2017 could not be ascertained.

### **5.0 Irregular Sports Projects Expenditure**

Note 6 to the financial statements reflected Kshs.4,193,104 expenditure in respect to sports projects, However, project files containing bank statements, invitation letters, list of participants, winners and prizes were not availed for audit verification.

Further, the Kshs.4,193,104 sports expenditure was 5.12% of the Fund's total budgeted expenditure of Kshs.81,896,552 for the year under review which was contrary to provision of Section.25(8) of the NGCDF Act, 2015 which requires that such expenditure should not be more than 2% of the total budget allocation.

Under the circumstances, the Constituency was in breach of the law and the Kshs.4,193,104 expenditure was irregular.

## **6.0 Unsupported Roads Expenditure**

Note 6 of the notes to the financial statements reflected an expenditure of Kshs.72,574,089 in respect to other grants and transfers which included Kshs.10,237,931 spent on roads projects. However, approval from Kenya Rural Roads Authority (KERRA), bank statements, the project file, the bill of quantities outlining the number of Kilometers for road works, minutes of the inspection and acceptance committee, and minutes of the project management committee were not provided for audit review.

In the circumstances, the propriety of the Kshs.10,237,931 expenditure on roads projects as at 30 June 2017 could not be ascertained.

## **7.0 Unsupported Emergency Projects Expenditure**

Note 6 of the notes to the financial statements reflected Kshs.18,053,000 expenditure on emergency projects. However, users requests to the constituency committee showing the nature of the emergency and whether the expenditure met the requirement for an emergency as required by Section 8(3) of the National Government Constituency Development Fund Act, 2015 was not provided for audit review.

In the circumstances, the authenticity and value for money of the Kshs.18,053,000 expenditure on emergency projects as at 30 June 2017 could not be ascertained.

## **8.0 Unsupported Fuel, Oil and Lubricants**

Note 4 to the financial statements reflects Kshs.2,551,100 expenditure on fuel oil and lubricants. However, fuel registers, detail orders, vehicle work tickets and quotations/tender documents were not provided for audit review.

In the circumstances, the authenticity and value for money of the Kshs.2,551,100 expenditure on fuel oil and lubricants as at 30 June 2017 could not be ascertained.

## **9.0 Unsupported Domestic Travel and Subsistence**

Note 4 to the financial statements reflected Kshs.1,974,400 expenditure on domestic travel and subsistence which included Kshs.1,896,000 spent on official duties.

However, the program of activities, back to office reports, work tickets and nature of duties under taken were not provided for audit review.

Under the circumstances, it was not possible to determine the propriety and value for money of the Kshs.1,896,000 expenditure as at 30 June 2017.

### **10.0 Unsupported Mock and CAT Exams Expenditure**

Note 6 to the financial statements reflects Kshs.4,840,000 expenditure on mock and CAT examinations. However, requisition for the mock papers, number of schools to be issued with mock papers, procurement procedures used, Project Management Committee files and mock examination distribution list were not availed for audit review.

In the circumstances, it has not been possible to confirm the authenticity and value for money of the Kshs.4,840,000 expenditure on mock and cats as at 30 June 2017.

### **11.0 Unsupported Expenditure on Security Projects**

Note 6 to the financial statements reflected Kshs.1,200,000 expenditure on security projects. However, project files containing project management committee (PMC) minutes, bank statements, tenders/quotations, bill of quantities and completion certificates were not provided for audit review.

In the circumstances, the authenticity and value for money of the Kshs.1,200,000 expenditure on security projects as at 30 June 2017 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of NGCDF- Isiolo 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 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 and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

### **Other Matter**

#### **1. Budget Control and Performance**

During the Financial year under review, the Fund had an approved expenditure Budget of Kshs.107,060,624. However, only Kshs.106,885,716 (99.84%) was spent resulting in an under expenditure of Kshs.174,907 as shown below;

<b>Receipt/Expense Item</b>	<b>Original Budget (Kshs)</b>	<b>Actual on Comparable Basis (Kshs)</b>	<b>Budget Utilisation Difference (Kshs.)</b>	<b>% of Utilisation</b>
Transfers from CDF Board	107,060,624	106,048,506	1,012,118	99%
Compensation of Employees	2,232,326	330,000	1,902,326	92%
Use of goods and services	13,201,972	21,981,627	(8,779,655)	167%
Transfers to Other Government Units	53,800,000	12,000,000	41,800,000	22%
Other grants and transfers	37,826,326	72,574,089	(34,747,763)	192%
<b>Totals</b>	<b>107,060,624</b>	<b>106,885,716</b>	<b>174,907</b>	<b>100%</b>

In the circumstances, residents of Isiolo South Constituency therefore did not receive services equivalent to the under expenditure of Kshs.174,907 incurred during the year under review.

## **1.2 Project Management Implementation**

During the financial year under review, the CDF management did not update the project implementation status report. In the absence of an updated status report, the progress of work on the projects funded during the year under review and their status as at 30 June 2017 could not be confirmed.

### **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 NGCDF- Isiolo South Constituency's ability to continue as a going concern/ 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 NGCDF- Isiolo South Constituency's 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 NGCDF- Isiolo South Constituency'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:

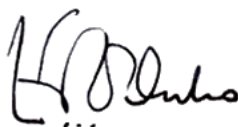
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 NGCDF- Isiolo South Constituency'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 NGCDF- Isiolo South Constituency'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 NGCDF- Isiolo South Constituency's to cease to continue 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 NGCDF- Isiolo South Constituency's 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**

**17 July 2018**