

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KAJIADO EAST 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 - Kajiado East Constituency set out on pages 5 to 35, 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 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 - Kajiado East 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. Presentation and Disclosures in the Financial Statements

The following presentation and disclosure issues have been noted in the financial statements:

- (i) The financial statements presented for audit have no clear page numbers and are, therefore, not properly identified. In addition, the statement of financial assets reflects net liabilities instead of net financial position of Kshs.11,011,833 as represented by the fund balance brought forward of Kshs.19,472,196 and deficit for the year of Kshs.8,460,363.
- (ii) The chairman has indicated in his statement that the fund utilized Kshs.15,000,000 on bursaries whereas Note 7 to the financial statements shows that an amount of Kshs.13,152,720 was used thus resulting in a difference of Kshs.1,847,280.

- (iii) Format of numbering in the Notes to the financial statements is not consistent with the referencing used in the main body of the financial statements. In the statement of receipts and payments, for instance, reference to transfers from CDF board-AIEs' received is made to Note 1. However, the item in the notes is under Note 1.1.1.1.1.1.1.1 – Transfers from other government entities.

The financial statements have therefore not complied with the presentation guidelines issued by the Public Sector Accounting Standards Board.

2. Inaccuracies in the Financial Statements

- (i) The statement of receipts and payments reflects compensation of employees figure of Kshs.1,488,230 and refers to Note 4. However, the Note has a balance of Kshs.1,499,750 leading to unexplained variance of Kshs.11,520.
- (ii) Other grants and transfers balance in the statement of receipts and payments is reflected as Kshs.27,988,363 and referred to Note 7 but the Note reflects Kshs.27,708,784 resulting in a variance of Kshs.279,579.
- (iii) Some comparative balances in the statement of receipts and payments vary from those reflected in the previous audited financial statements as shown below:

	Comparative Figure Reflected in 2016/2017 Financial Statements	Balance as per the Audited Accounts 2015/2016)	Variance
	Kshs	Kshs	Kshs
Compensation of employees	903,764	935,567	(31,803)
Use of goods and services	7,198,587	7,166,784	(31,803)
Transfers to Other Government Units	13,600,000	23,600,000	10,000,000
Other Payments	10,000,000	-	(10,000,000)

- (iv) The statement of assets reflects outstanding imprests balance of Kshs.3,504,709 and refers to Note 11. The note however does not show any balance.
- (v) The cash flows statement reflects cash and cash equivalents at the end of year of Kshs.7,507,124 but the same cast to Kshs.5,981,682 resulting in a variance of Kshs.1,525,442. Further, the statement reflects cash and cash equivalents balance of Kshs.19,472,196 at the beginning of the year whereas the comparative column reflects Kshs.19,192,617 as the closing balance for the previous financial year leading to unexplained variance of Kshs.279,579.

- (vi) The trial balance as at 30 June 2017 reflects an item described as prior year adjustments of Kshs.279,579 However, the item has not been presented in the financial statements.
- (vii) The adjustments column of the summary statement of appropriation cast to Kshs.73,651,370 but is shown as Kshs.72,060,422 resulting in a casting error of Kshs.1,590,948. The final budget under total payments is reflected as Kshs.153,956,975 instead of Kshs.155,547,923.
- (viii) Note 4 to the financial statements reflects compensation of employees amounting to Kshs.1,499,750 while the schedule provided for audit review has a figure of Kshs.1,546,510 thus resulting in an unexplained difference of Kshs.46,760.

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

3. Compensation of Employees

The statement of receipts and payments reflects expenditure of Kshs.1,499,750 in respect of compensation of employees. The expenditure includes payments of Kshs.91,890 and Kshs.93,143 to National Hospital Insurance Fund and National Social Security Fund, respectively as penalties for late payment of staff contributions to the two statutory bodies as shown below:

Date	PV No.	Payee	Details	Amount
				Kshs
20/12/2016	3915	N.H.IF.	Late contributions July 2015-September 2016	66,490
07/10/2016	2868	N.H.IF.	Late contributions Dates not specified	25,400
25/12/2016	3916	N.S.S.F.	Late contributions May 2016-October 2016	13,522
07/10/2016	2799	N.S.S.F.	Late contributions -Dates not specified	79,621
				185,033

Consequently, it is not possible to ascertain whether any value accrued to the public as a result of use of the amount of Kshs.185,033 to pay penalties.

4. Transfer to Other Government Units

(i) The statement of receipts and payments reflects an amount of Kshs.56,500,000 under transfers to other government units and comprises Kshs.52,500,000 transferred to primary schools and Kshs.4,000,000 to secondary schools as disclosed in Note 6 to the financial statements. However, the expenditure schedule reflects a total figure of Kshs.45,600,000 comprising Kshs.38,600,000 for primary schools and Kshs.7,000,000 for secondary schools. The resulting variance of Kshs.10,900,000 as detailed below has not been explained:

	Financial statements Figure	Supporting Schedule	Variance
	Kshs	Kshs	Kshs
Transfers to primary schools	52,500,000	38,600,000	13,900,000
Transfers to Secondary schools	4,000,000	7,000,000	(3,000,000)
	56,500,000	45,600,000	10,900,000

(ii) Analysis of the cash book and bank statements revealed that the following schools received funding but this information has not been captured in the expenditure schedule:

	Name of school	Cheque No.	Amount Kshs
1	Kaptiei Secondary School	2823	1,000,000
2	Athi River GK Prison primary school	4519	4,000,000
3	Mashuru Primary school	4538	2,000,000
4	Noompopong Primary school	4528	1,500,000
	Total		8,500,000

(iii) Further, the expenditure schedule indicate that Tipatet Emakoko Primary School was issued with a Cheque No. 4528 for Kshs.1,000,000 whereas the bank statement indicates that the Cheque in question was for Kshs.1,500,000 paid to Noompopong primary school. In addition, Athi River G.K Primary school was issued with Kshs.4,000,000 for reroofing of eight class rooms. However, a site visit to the school revealed that only four class rooms were renovated. The Project Management Committee did not provide Bills of Quantities and expenditure returns to show how the money was utilized. It was also not explained how the contractor was identified and how the scope of work changed from renovation of eight class rooms to four class rooms. In the circumstances, the propriety and accuracy of transfers to other government units of Kshs.56,500,000 cannot be confirmed.

5. Other Grants and Transfers

(i) The statement of receipts and payments reflects an amount of Kshs.27,988,363 under other grants and transfers. As disclosed at Note 7 to the financial statements, amounts of Kshs.3,656,064 and Kshs.2,100,000 were used on sports and environment, respectively. However, cashbook analysis and payment details provided for audit indicates that the Kajiado East Constituency Development Fund Committee (CDFC) disbursed Kshs.3,656,034 to Kajiado East Constituency Environment Project Management Committee(PMC) to be used on tree planting and purchase of sporting equipment. Further, expenditure returns and other records to support this expenditure have not been provided for audit review.

(ii) As shown under Note 7 to the financial statements, the expenditure of Kshs.27,988,363 on other grants includes Kshs.13,152,720 and Kshs.4,000,000 in respect of bursaries and security, respectively. Details of payments vouchers presented for audit indicates that payments made amounted to Kshs.7,567,000 and Kshs.6,000,000 for the two items respectively.

(iii) In addition, an amount of Kshs. 4,800,000 was paid under emergency out of which Kshs. 300,000 was paid to Ketoora Primary School Project Management Committee to finance the completion of a stalled project. However, the expenditure did not qualify to be financed from emergency funds since it did not meet the criteria set in section 8 (3) Of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, the propriety and accuracy of other grants and transfer expenditure of Kshs. 27,988,363 for the year ended 30 June 2017 cannot be confirmed.

6. Cash and Cash Equivalents

The statement of assets reflects a bank balance of Kshs.7,507,124 as at 30 June 2017. A review of the bank reconciliation statement for June 2017 revealed that cheques totalling Kshs.4,840,278 remained unrepresented as at 30 June 2017. However, out of the unrepresented cheques, a total of Kshs.4,332,918 were stale and were yet to be reversed in the books of account. No reasons have been provided for failure by the payees to present the cheques for payment. In addition, bank confirmation certificate for the bank balance of Kshs.11,753,537 as reflected in the reconciliation has not been provided for audit verification. Consequently, the existence and the accuracy of the cash and cash equivalents balance of Kshs.11,011,833 as at 30 June 2017 cannot be ascertained.

7. Failure to Provide Explanatory Notes for Material Variances

Contrary to the requirements of paragraph 1.9.8(c) of International Public Sector Accounting Standards Framework under Cash Basis of Accounting, no disclosures have been provided by way of notes to explain material differences between the budget and actual amounts as detailed below:

Item	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	% Variance
Compensation of Employees	3,690,948	1,488,230	2,202,718	60%
Use of goods and services	6,421,901	5,464,206	957,695	15%
Transfer to other Government Units	66,800,000	56,500,000	10,300,000	15%
Other grants and transfers	56,181,030	27,988,363	28,192,667	50%
Acquisition of assets	11,409,215	10,835,649	573,566	5%
Other payments	11,044,829	-	11,044,829	100%
Total	155,547,923	102,276,448	53,271,475	34%

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kajiado East 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 audit 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 matters discussed in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Delay in Implementation of Projects

The statement of receipts and payments reflects an expenditure of Kshs.27,988,363 for other grants and transfers which includes Kshs.6,000,000 disbursed for security projects. However, two security projects estimated to cost Kshs.3,000,000 were not implemented although funded in 2016/2017 financial year due land ownership disputes as shown below:

Payment Voucher No.	Date Paid	Payee	Activity	Cheque No.	Amount Paid (Kshs)
356	10/10/2016	Chuna AP Post PMC	Construction of 5 AP rooms		2,000,000
345	26/5/2017	Olooltepes Police Post	Construction of AP Line post	4556	1,000,000
Total Amount Disbursed					3,000,000

No satisfactory reasons have been given as to why the Constituency Development Fund Committee approved and disbursed the funds to Project Management Committees for the two projects before confirming that the status of ownership of these two pieces of land on which they were to be implemented. This casts doubt as to whether there was adequate public participation in identification of the two projects. In the circumstances, the residents of these areas were denied the benefits which ought to have accrued from these projects and hence value for money was not achieved.

2. Budgetary Performance

2.1 Under-funding

The summary statement of appropriation reflects budgeted and actual receipts of Kshs.153,956,974 and Kshs.113,008,702 respectively for the year ended 30 June 2017. The resultant underfunding of Kshs.40,948,272 or 27% has not been explained.

2.2 Under-expenditure

The summary statement of appropriation also reflects final budgeted expenditure of Kshs.153,956,975 and actual total expenditure of Kshs.102,276,448 and a net under-expenditure of Kshs.51,680,527. The under-expenditure is an indication that approved programs were not executed thereby denying the constituents benefits that ought to have accrued from those projects.

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 going concern basis of accounting unless the management either intends 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:

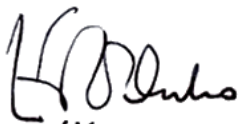
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting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

13 July 2018

Report of the Auditor-General on the Financial Statements of National Government Constituencies Development Fund – Kajiado East Constituency for the year ended 30 June 2017