

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KAJIADO SOUTH 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 South Constituency set out on pages 5 to 24, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flow 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 South Constituency as at 30 June 2017, and 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 inconsistent page numbers in that page 9 to 23 have not been printed. The financial statements have, therefore, not been properly identified. In addition, the statement of financial assets reflects net liabilities instead of net financial position of Kshs.6,615,641 as represented by the fund balance brought forward of Kshs.31,643,637 and deficit for the year of Kshs.25,027,996.
- (ii) In the table of contents, significant accounting policies are indicated as appearing on page 24 instead of page 9 while Notes to the financial statements are indicated to be on page 26 instead of page 11.

- (iii) Paragraph 2 of the statement of National Government Constituencies Development Fund- Kajiado South Constituency Management Responsibilities at page 4 refers to financial statements for the year ended 30 June 2016 while paragraph 3 refers to financial statements for the year ended 30 June 2015.

The financial statements have therefore not been prepared in accordance with the reporting guidelines issued by the Public Sector Accounting Standards Board.

2. Inaccuracies in the Financial Statements

The following inaccuracies have been noted in the financial statements:

- (i) Note 7(other grants and transfers) to the financial statements is reflected as Kshs.34,098,509 while the same casts to Kshs.41,379,928 resulting in an unexplained casting error of Kshs.7,281,419.
- (ii) The statement of cash flows reflects payments for operating expenses of Kshs.107,424,548 but the same casts to Kshs.107,124,748 leading to a casting error of Kshs.299,800. The net cash flows from operating activities is also misstated by Kshs.299,800.
- (iii) The financial statements were prepared without a trial balance.
- (iv) In addition ,the following differences have been noted between the balances reflected in the financial statements and the supporting schedules:

Item	Balance as per Financial Statements Kshs	Supporting Schedule Kshs	Variance Kshs
Transfers from CDF board	82,396,552	-	82,396,552
Compensation of employees	3,272,868	3,753,829	(480,961)
Use of goods and services	6,917,801	8,395,074	(1,477,273)
Transfer to Other Government Entities	62,835,570	61,749,363	(1,086,207)
Other grants and other payments	34,098,509	29,095,119	5,003,390
Acquisition of Assets	299,800	0	299,800
Other grants & transfers			
• Bursaries for tertiary institutions	19,347,886	18,060,886	1,287,000
• Emergency projects	7,281,419	4,889,091	2,392,328
• Sports	2,000,000	1,000,000	1,000,000

• Water projects	4,669,204	780,000	3,889,204
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Consequently, the completeness and accuracy of the financial statements for the year ended 30 June 2017 cannot be confirmed.

3. Bank Balance

The statement of financial position reflects a bank balance of Kshs.6,615,641 as at 30 June 2017. However, a review of the bank reconciliation statement for the month of June 2017 revealed un-presented cheques totalling Kshs.208,807 out of which cheques amounting to Kshs.26,453 were stale as at 30 June 2017 but had not been reversed in the cashbook. Consequently, the accuracy of bank balance of Kshs.6,615,641 as at 30 June 2017 cannot be confirmed.

4. Other Grants and Transfers

4.1. Ineligible Expenditure

The statements of receipts and payments reflects expenditure totalling Kshs. 34,098,509 in respect of other grants and transfers. The expenditure included an amount of Kshs.4,669,204 incurred on water projects which fall under the County Government functions contrary to Section 24 (a) of the National Government Constituency Development Fund Act of 2015. Consequently, the National Government Constituencies Development Fund Board and the Kajiado South Constituency Development Fund Committee were in breach of the law to the extent of this ineligible expenditure.

4.2. Allocation of Bursary Funds

The statements of receipts and payments reflects expenditure totalling Kshs.4,098,509 in respect of other grants and transfers which includes Kshs.19,347,886 for bursaries disbursed to students in tertiary institutions. The fund budgeted for bursaries amounting to Kshs.20,474,138 which covered only tertiary institutions. However, students in secondary schools and other levels of learning were not factored in the budget. It has been noted that all university students who benefited from bursaries were awarded a flat rate of Kshs.27,000 each while those in teacher training colleges were given 21,000 across the board without considering the fee balance of each student and the cost of the course being undertaken. No explanation has been provided for this anomaly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund-Kajiado South 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 opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance to the audit of the financial statements for the current year. Except for matters described in the Basis for Adverse Opinion and Other matter sections, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Delay in Implementation of Projects

The Fund contracted Kipereu Moipaa to fence 25 acres of school land with concrete pillars, mild steel angle lines and chain link and fixing of two gates at Isinet Primary School on 29 November 2016, at a contract sum of Kshs.3,800,000. The Contract period was 12 months from the date of the contract agreement.

A site visit by the audit team on 25 April 2018 revealed that although the contract period expired on 28 November 2017, the contractor had abandoned the works after just fixing the concrete pillars. Further, no documentary evidence was provided either to confirm that the contractor had requested for extension of contract period or that action had taken against the contractor for breach of contract.

Although the Fund had disbursed Kshs. 3,350,000 in 2016/2017 financial year to the project management Committee (PMC) of Isinet Primary School for implementation of the above project, the PMC did not maintain any expenditure records to show the details of the expenditure incurred and the outstanding balance, if any.

Consequently, the constituents may not have obtained value for money in respect of amounts transferred to the primary school totalling to Kshs.3,350,000 as at 30 June 2017.

2. Staff Establishment

A review of the staff establishment records revealed that the Fund has employed six members of staff who include one project coordinator, two field officers, a secretary, one guard and one support staff. However, the Fund has failed to employ persons with knowledge in information technology, construction and accounting knowledge as required by Section 43 of the National Government Constituencies Development Fund Act, 2015. Most of those duties are performed by the Fund's Manager as a result of which the principle of segregation of duties has been compromised in an environment which ought to have proper systems of internal control.

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

18 January 2019