

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KARACHUONYO 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 – Karachuonyo Constituency set out on pages 5 to 24, which comprise the statement of financial 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 discussed 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 – Karachuonyo 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 Constituency Development Fund Act, 2015.

In addition, 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 of Financial Statements

1.1. Misstatement of Cash and Cash Equivalents

Included in statement of financial assets are bank balances of Kshs.435,204. However, the bank reconciliation statement availed as at 30 June 2017 reflect bank certificate balance of Kshs.298,963 and balance as per cash book of Kshs.435,204 that have been reconciled with un-presented cheques amounting to Kshs.291,000, payments in the bank statement not yet recorded in the cash book of Kshs.326,391 and receipts in the cash book not yet in the bank statement of Kshs.100,850. A review of the reconciliation statement revealed the following anomalies:

- Included in the figure of 326,391 are bank charges amounting to Kshs.266,391 accumulated over the years that has not been expensed in the financial statements. Also included are two payments totaling to Kshs.60,000 that were

paid by the bank and not yet recorded in the cash book whose supporting documents were not availed.

- The figure of Kshs.100,850 represents over posting in the cash book of cheque No.978 of Kshs.272,000 paid on 11 October 2016 but recorded in the cash book as Kshs.372,000. The cash book was not adjusted to correct this error.
- The Fund did not avail bank reconciliations for the period August to November 2016 and January to May 2017 for audit verification. Section 90 of the Public Finance Management National Government Regulations requires that bank accounts reconciliations are completed for each bank account held by that accounting Officer, every month and submit a bank reconciliation statement not later than the 10th of the subsequent month to the National Treasury with a copy to the Auditor-General. Any discrepancies noted during bank reconciliation exercise, are investigated immediately and appropriate action taken including updating the relevant cash books.

Consequently, the accuracy of the cash and cash equivalents of Kshs.435,204 could not be confirmed.

1.2. Misstatement of Outstanding Imprests

Included in the prior year audited financial statements is an outstanding imprest balance of Kshs.6,449,964 while the current year statement of assets which includes cash and cash equivalents under Note 11, outstanding imprests reflected a nil balance. However, no evidence has been provided to confirm whether the outstanding imprests were surrendered and expensed. This contravenes Section 93(5) of the Public Financial Management National Government Regulations 2015 which requires a holder of a temporary imprest to account or surrender the imprest within 7 working days after returning to duty station. In the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

Consequently, there is a suspense balance of Kshs.6,449,964 between the reported cash and cash equivalents as at 30 June 2017 of Kshs.435,204 and the net assets balance of Kshs.6,885,168.

1.3. NHIF Penalty

Included in the financial statements under Note 2 is compensation of employees of Kshs.1,440,905 which includes NHIF payment totaling Kshs.289,030 which exceeded the approved budget of Kshs.250,000 by Kshs.39,030. This was as a result of penalty due to late remittance of the NHIF monthly contributions and has not been reported under pending bills. Failure to remit contributions on the due date was in contravention of NHIF Act Cap 255. 9. (1) which states, if any standard contribution which any person is liable to pay under this Act in respect of any month is not paid on or before the day on which payment is due, a penalty equal to five per cent of the amount of that

contribution shall be payable by that person for each month or part of a month thereafter that the contribution remains unpaid, and any such penalty shall be recoverable as a sum due to the Fund, and when recovered shall be paid into the Fund.

Consequently, the propriety of the expenditure could not be confirmed and the Fund breached the law.

1.4. Understated Strategic Plan Expenditure

Included in the financial statements under Note 8 is other payments of Kshs.1,699,940 which is strategic plan, while a contract worth Kshs.1,998,680 had been signed with the consultant leading to a variance of Kshs.298,740 that has not been reported under pending bills. Contrary to, Section 43 (a) of the PFM National Government Regulations 2015 states that an Accounting Officer shall sign financial statements thereby making himself or herself responsible for their correctness.

Consequently, the validity and accuracy of Kshs.1,699,940 could not be confirmed.

1.5. Misstatement of Fixed Assets

Included in the financial statements under annex 4 is summary of fixed assets of Kshs.4,191,074 as the total value of the constituency assets as at 30 June 2017 while the analysis of the fixed assets register availed for audit reflects Kshs.13,399,714 resulting to a variance of Kshs.9,191,074, understating the summary of fixed assets by the same amount. This is contrary to Section 43 (a) of the PFM National Government Regulations 2015 that states that an Accounting Officer shall sign financial statements thereby making himself or herself responsible for their correctness.

Consequently, the validity and accuracy of the fixed assets figure of Kshs.4,191,074 could not be confirmed.

2. Unsupported Staff Payables

Included in the financial statements under Note 13.1 is pending staff payables of Kshs.435,204. However, list of beneficiaries, payrolls and payment vouchers to support the figure were not availed for audit verification. Hence, the correctness of the pending staff payables could not be confirmed. This is contrary to Section 99 (3) of the Public Finance Management Regulations, 2015 which states that every entry in the financial statements shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

Consequently, the propriety of the expenditure of Kshs.435,204 could not be confirmed.

3. Un-implemented Projects and Services

The National Government Constituencies Development Fund Board disbursed Kshs.97,520,366 out of which Kshs.47,572,089 was for projects approved in the financial year 2015/2016. However, the Board did not disburse Kshs.31,948,275 out of the approved budget of Kshs.81,896,551 for the year ended 30 June 2017. The total budget utilization difference reflected in the summary statement of appropriation is Kshs.53,907,066 which had not been put to use, contrary to Section 16 of the National Government Constituencies Development Fund Act, 2015 which provides that the

Board shall (a) ensure timely and efficient disbursement of funds to every constituency, (b) ensure efficient management of the Fund; (c) consider project proposals submitted from various constituencies in accordance with the Act, approve funding those projects proposals that are consistent with this Act and send funds to the respective constituency fund account of the approved projects.

Consequently, the projects amounting to Kshs.53,907,066 had not been implemented as at 30 June 2017 resulting to delay in service delivery and the residents of Karachuonyo may not have got value for money due to delayed disbursement.

4. Unsupported Expenditure on Agriculture

Included in the financial statements under Note 6 is other grants and other payments which includes Agriculture (food security) of Kshs.3,998,234 under which an amount of Kshs.1,253,441 was spent for the supply and planting of trees but the LPOs and distribution lists for the supply and planting of trees in various schools were not availed to support this expenditure. This contravenes Section 99 (3) of the Public Finance Management regulations 2015 which states that every entry in the financial statements shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

Consequently, the propriety of the expenditure of Kshs.1,253,441 could not be confirmed

5. Roads Budget not Approved

Included in the financial statements under Note 6 is other grants and other payments of Kshs.60,597,745 which includes roads of Kshs.3,600,000 which in turn includes Kshs.600,000 for construction of Got Oyaró Pala road gabions which was funded during the financial year under review yet it was not in the 2015/2016 nor 2016/2017 approved budgets. This is contrary to Section 40 of the National Government Constituencies Development Fund Act, 2015 that states that the Board shall ensure that the list of projects forwarded to it by each constituency is, upon approval, funded in accordance with the Act.

Consequently, the validity and propriety of the expenditure of Kshs.600,000 could not be confirmed and the Fund breached the law.

6. Unrecorded Pending Bills

Included in the financial statements under Note 6 is other grants and other payments of Kshs.60,597,745 which includes environment of Kshs.1,500,000 under which a local supplier was contracted to supply tree seedlings at a contract cost of Kshs.1,637,031 but only Kshs.900,000 was paid to the supplier during the year leaving a balance of Kshs.737,031 that has not been included in pending bills and the contract cost is more than the approved amount by Kshs.137,031 thus resulting unauthorized expenditure.

This is contravention to the National Government Constituencies Development Fund Act, 2015 that states that the Board shall ensure that the list of projects forwarded to it by each constituency is, upon approval, funded in accordance with the Act.

Consequently, the propriety of expenditure of Kshs.137,031 and the pending bill figure of Kshs.737,031 could not be confirmed.

7. Unsupported Funds not Spent

Included in the financial statements under summary statements of appropriation is adjustments (unspent from last financial year is Kshs.98,210,946 which also includes Kshs.29,115,269 being bank balance as at 30 June 2016 and opening balance of 2016/2017. The difference from the adjustments figure and the bank is Kshs.69,095,677 which was neither supported nor explained in contrary to Section 99 (3) of the Public Finance Management Regulations 2015 that states that every entry in the financial statements shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

Consequently, the accuracy and the validity of the figure of Kshs.69,095,677 could not be confirmed.

8. Prior Year Issues

During the year under review, it was observed that the Fund did not resolve all the issues recommended by the Auditor-General as progress on follow up of Auditor recommendations. This is contrary to Public Sector Accounting Standards Reporting Template requirement.

Consequently, the Fund breached the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Karachuonyo 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 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 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. Budget Underutilization

The budget amounts of mocks and cats, roads and bridges, security and agriculture were spent below the budget amounts as shown below:

No.	Description	Budget Amount (Kshs.)	Actual Amount (Kshs.)	Amount Unspent
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				(Kshs.)
1	Mocks and cats	1,000,000	350,000	650,000
2	Roads and bridges	4,500,000	3,600,000	900,000
3	Security	3,091,035	2,100,000	991,035
4	Agriculture	4,583,441	3,998,234	585,000
	Total	13,174,476	10,048,234	3,126,035

Contrary to International Public Sector Accounting Standards (IPSASs) paragraph 1.9.12, an explanation of the material differences between actual amounts and the budget amounts is required to assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

Consequently, the citizens were denied the opportunity to benefit from the funds which had been approved and disbursed to the Fund.

2. Over Expenditure on Bursary

The Fund had a budget of Kshs.19,474,137.94 out of a total of Kshs.80,597,745 shown in the summary statement of appropriation, towards the funding of bursaries for needy students but ended up spending Kshs.42,931,070 resulting to unauthorized over expenditure by Kshs.22,816,932. This was contrary to International Public Sector Accounting Standards (IPSASs) paragraph 1.9.12, which states an explanation of the material differences between actual amounts and the budget amounts is required to assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable. Consequently, the Fund breached the law.

3. Under Transfer of Funds to Schools

Included in the financial statements under Note 5 is transfer to other government entities of Kshs.47,215,000 which includes transfers to primary and secondary schools of Kshs.43,365,000. However, a comparison between the approved budgets for some schools revealed that an amount of Kshs.29,450,000 was disbursed from the NG-CDF Board for the transfers but only Kshs.26,350,000 was actually spent resulting into a variance of Kshs.3,100,000 contrary to presentation of budget information in financial statements (IPSAS 24) that requires that a disclosure of an explanation of material difference between budget and actual amount should be made. Consequently, the schools were denied the benefit of development worth Kshs.3,100,000 which were not transferred to the schools.

4. Over Expenditure of Social Security Benefits

The actual amount reported in Note 7 to the financial statements as incurred on social security benefits during the year is Kshs.173,948 while the approved budget allocation is Kshs.30,000 leading to an over expenditure of Kshs.143,948. Contrary, to section 51 (2) of the Public Finance Management Regulations 2015 which states that expenditure commitments for goods and services shall be controlled against spending and procurement plans approved by the responsible Accounting Officer, based on allocations and allotments from approved budgets.

Consequently, the Fund breached the law.

5. Budget Re-allocation

- i. Included in the financial statements under note 6 is other grants and other payments of Kshs.60,597,745 which includes roads of Kshs.3,600,000 which in turn include an amount of Kshs.1.5 million set aside for Kambusi Footbridge but re-allocated to Kisindi Primary Footbridge. The approval from the board and minutes for the re-allocation has not been availed for audit review.
- ii. In addition, the project file shows that a local contractor was awarded a contract worth Kshs.4,511,649 out of a total of Kshs.60,597,745, but the PMC bank statements were not availed for audit verification to confirm whether the funds set aside for the project were still intact.

In the circumstances, the Fund contravened Section 6 (2) of the National Government Constituencies Development Fund Act, 2015 that states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

6. Committee Expenses

Included in the financial statements under Note 4 is committee expenses of Kshs.13,491,500 while the approved budget is Kshs.3,790,689 resulting to an over expenditure of Kshs.9,700,811 without approval, contrary to Section 51(2) of the Public Finance Management Regulations 2015 which states that expenditure commitments for goods and services shall be controlled against spending and procurement plans approved by the responsible Accounting Officer, based on allocations and allotments from approved budgets.

Consequently, the propriety of the expenditure of Kshs.9,700,811 could not be confirmed and 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 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 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 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 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

28 August 2018