

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KASARANI 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 - Kasarani Constituency set out on pages 6 to 27, 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- Kasarani 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. Opening Accounts Balances

As reported in the previous year, the original constituency was divided into additional other electoral areas of Roysambu, Ruaraka and Mathare following the general elections of 2013. Information and records made available indicated that no opening cash balances and assets were inherited and accounted for in the books of account from the original Kasarani Constituency. Consequently, the accuracy of the opening and closing bank balances of Kshs.24,921,253.48 and Kshs.1,356,512.58 reflected in the statement of assets as at 30 June 2017 respectively, cannot be confirmed.

2. Transfers to Other Government Units

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other Government units of Kshs.24,979,426 but the respective Note 6 to the financial statements reflects Kshs.25,159,255 resulting in unexplained difference of Kshs.179,829.

3. Use of Goods and Services

During the year under review, the fund spent Kshs. 7,341,060 on use of goods and services. However, the annual expenditure returns show Kshs. 6,953,060 only, resulting in a variance of Kshs. 388,000. In addition, payment vouchers and source documents to support the expenditure were not produced for audit review. Consequently, the propriety of the expenditure on use of goods and services amounting to Kshs. 7,341,060 cannot be confirmed.

4. Other Grants and Transfers

Other grants and transfers expenditure of Kshs.68,930,601 as disclosed in Note 7 to the financial statements includes an amount of Kshs. 35,100,000 relating to security. The fund spent Kshs.27,500,000 in the installation of 5 units (30 metres high) security mast flood lights. However, tender opening and evaluation minutes for the project were not produced for audit review. The only document related to the project was the bills of quantities as per tender number DWO/Kasarani /CDF/8/2016-2017 for supply, delivery and installation of 2 number 30-metre-high flood mast at Maili Saba and Kamulu which had a quote from Kicos Investment Company with total tender sum of Kshs.10,905,679.68. Project inspection and verification of the electrical installations on 21 March 2018 revealed that two flood masts erected at Maili Saba and Chokaa area were not working even though they were completed during the year 2017. It was also noted that the bills of quantities from the State Department of Works in the PMC file was not signed.

In the circumstances, the validity and propriety of the expenditure of Kshs.27,500,000 incurred on security mast flood lights can not be confirmed. Further, it is also apparent that the public did not get value for money from the security mast flood lights project.

5. Cash and Cash Equivalents

The statement of assets reflects a bank balance of Kshs.1,356,512.58 as at 30 June 2017 and as further disclosed at Note 10A to the financial statements. However, bank reconciliation statements were prepared for the period up to February 2017 and not June 2017 as required. A review of the February 2017 bank reconciliation statement revealed un-presented cheques totalling Kshs. 38,250,073 out of which cheques worth Kshs. 642,841 were stale cheques but had not been reversed in the cashbook. In addition, certificate of balance from the bank was not provided for audit verification. Further information indicate that the fund maintained 34 Project Management Committee (PMC) bank accounts that had a total of Kshs. 5,525,058.38. However, the balances were not verified since bank statements and certificate of bank balances were not provided for audit review.

In the circumstances, the completeness, existence and accuracy of the bank balance of Kshs.1,356,512.58 as at 30 June 2017 cannot be confirmed.

6. Net Financial Position

The statement of assets as at 30 June 2017 reflects net liabilities instead of net financial position of Kshs.1,356,512.58, being the difference between the brought forward fund balance of Kshs. 24,921,253.48 and the deficit for the year of Kshs. 23,564,740.90. 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 Constituencies Development Fund - Kasarani 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, 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. Budget and Budgetary Controls

During the year under review, the fund budgeted expenditure amounted to Kshs.106,817,805.20. However, overall actual expenditure for the year was Kshs.103,468,292.60 resulting in an under expenditure of Kshs.3,349,512.60 which is equivalent to about 3% of the total budget.

Further analysis of the budget against actual expenditure indicate that out of the development budget of Kshs.97,184,745, an amount of Kshs.93,910,027 was spent resulting in under expenditure of Kshs.3,274,718 or 3% of the development budget. This implies that some budgetary provisions and plans were not met which impacted negatively on service delivery to the constituents of Kasarani. The under expenditure was mainly on transfers to other government units - Kshs.2,220,574 and other grants and transfers - Kshs. 1,054,144. The under expenditure is an indication that approved programs were not fully implemented.

2. Environmental Impact Assessment on Njiru Secondary School

During the year, the Fund allocated Kshs.7,500,000 towards construction of Njiru Secondary School. As reported in the previous year, the school is located about 100 metres from the Njiru sewer outfall and almost 200 metres from the Njiru quarry. The phase one construction of the classrooms was about 60 % by the time of audit. Management did not however present for audit review environmental impact assessment report of the project given its location next to the two facilities. In the absence of the environmental impact assessment report, it is not possible to confirm the extent to which the school will be impacted by the two facilities.

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 NG-CDF'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 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 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

20 August 2018