

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIAMBAA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kiambaa Constituency set out on pages 5 to 22, 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 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Kiambaa 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, based on the procedures performed, except for the matters described in the Other Matter sections of my report, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kiambaa 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 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 matter described in the

Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Bank Balances – Stale Cheques

The statement of assets reflects a bank balance of Kshs.1,387,953 as at 30 June 2017. However, a review of bank reconciliation statements showed that included as part of reconciling items are un-presented cheques totalling to Kshs.1,538,469 out of which cheques amounting to Kshs.236,000 were already stale as at 30 June 2017, and could not be presented to the bank for payment. No reason was provided why it has taken so long to reverse these cheques into the cashbook. Consequently, the accuracy of bank balances of Kshs.1,387,953 as at 30 June 2017 could be confirmed.

2. Over Expenditure on Projects

Note 6 to the financial statements reflects transfer to other government entities figure of Kshs.52,500,000 out of which Kshs.43,800,000 was disbursed to thirteen (13) primary schools. The balance of Kshs.43,800,000 incurred includes Kshs.10,423,055 for construction of projects in Gatatha and Kingothua primary schools.

However, scrutiny of records revealed that the CDF management awarded the contracts at the cost of Kshs.3,968,795 and Kshs.6,454,260 against approved budget provision of Kshs.3,000,000 and Kshs.5,500,000 respectively resulting in an over expenditure of Kshs.1,923,055 above the budget ceiling. No documentary evidence for the over expenditure was provided indicating that the CDF management obtained prior approval from the NG-CDF Board as stipulated in Section 6(2) of the National Government Constituencies Development Fund Act, 2015. The CDF was therefore in breach of the law.

3. Unverified Procurement and Award of Contracts

Records maintained by the Kiambaa CDF during the year under review, indicates that thirteen (13) primary school projects were implemented at a total cost of Kshs.43,800,000, out of which a total of Kshs.20,700,095 was towards four (4) projects in Gatatha, Muongoiya, Kibubuti and Kingothua primary schools. However, tender opening and evaluation minutes and original bills of quantities (BQs) in respect of the four (4) projects were not presented for audit verification. As a result, it has not been possible to establish how the contractors were identified, contracts awarded and cost determined for the following projects:

Project Name	Project Activity	Contract Sum Kshs.

Gatatha Primary School	Construction of 15 door aqua exhaustible toilets, terrazzo flooring and painting of 15 classrooms	6,454,260
Muongoiya Primary School	Construction of 15 door aqua exhaustible toilets, terrazzo flooring and painting of 15 classrooms	6,637,170
Kibubuti Primary School	Renovation and compound gravelling/murraming	3,639,870
Kingothua Primary School	Renovation and compound murraming	3,968,795
Total		20,700,095

As a result, the regularity of the expenditure of Kshs.20,700,095 incurred on the projects during the year ended 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 Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Government 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 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 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

07 November 2018