

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund- Kiminini Constituency set out on pages 6 to 37, 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- Kiminini 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 Constituencies Development 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**

#### **1.0 Presentation and Accuracy of Financial Statements**

A review of the financial statements availed for audit review revealed that the table of contents indicate the significant accounting policies are at page 24 instead of page 13. In addition, the statement of receipts and payments, statement of cash flows and summary statement of appropriation period is indicated as at 30 June 2017 instead of the year ended 30 June 2017. Further page 12 is missing in the financial statements and all pages after page 14 are not sequentially numbered.

Under the circumstances, the financial statements are not accurately presented in accordance with International Public Sector Accounting Standards and as prescribed by Public Sector Accounting Standards Board.

#### **2.0 Use of Goods and Services - Other Committee Allowances**

The statement of receipts and payments reflects a use of goods and services figure of Kshs.13,431,585 which includes Kshs.3,200,000 and Kshs.5,336,920 in respect of other committee allowances and committees allowances respectively. However, invitation

letters, signed attendance register, and the monitoring and evaluation reports were not availed for audit verification.

Under the circumstances, the validity and accuracy of other committee allowances and committees allowances total amount of Kshs.8,536,920 could not be confirmed.

### **3.0 Transfer to Other Government Entities**

#### **3.1.1 Unconfirmed Expenditure**

The statement of receipts and payments reflects transfers to other government units figure of Kshs.29,840,000 relating to funds disbursed to primary and secondary schools for various projects to be implemented by project management committees. However, actual expenditure returns from project management committees and acknowledgement letters from institutions that received funds were not availed for audit verification.

Under the circumstances, it was not possible to confirm whether funds totaling Kshs.29,840,000 were actually received and utilized for the budgeted projects in the year under review.

#### **3.2 Purchased of Land**

Included in the transfers to other government entities figure of Kshs.29,840,000 reflected in note 6 to the financial statements is purchase of land expenditure of Kshs.4,900,000. However, procurement records such as opening, evaluation and award minutes, search from lands office in Kitale, valuation report and document of ownership such as title/lease were not availed for audit verification.

Under the circumstances, the ownership, and regularity of the expenditure of Kshs.4,900,000 on purchase of land could not be confirmed.

#### **3.3 Purchase of School Buses**

Included in the transfers to secondary schools figure of Kshs.17,340,000 reflected in note 6 to the financial statements is an expenditure of Kshs.6,105,000 incurred on the purchase of three school buses . However, procurement records such as opening, evaluation and award minutes, inspection and acceptance report were not availed for audit review. Further, logbooks for the buses were not availed for audit verification.

Under the circumstances, the ownership, and regularity of the expenditure of Kshs.6,105,000 on purchase of buses could not be confirmed

### **4.0 Other Grants and Transfers**

#### **4.1 Bursary**

Included in the other grants and other payments figure of Kshs.25,992,980 reflected in note 7 to the financial statements is total bursary expenditure of Kshs.17,551,000. However, acknowledgement letters from recipient institutions were not availed for audit review, In addition the list of bursary subcommittee members and criteria for vetting the beneficiaries were not availed for audit verification.

Under the circumstances, the regularity of bursary expenditure of Kshs.17,551,000 could not be confirmed.

## **4.2 Environment**

Included in the other grants and other payment figure of Kshs.25,992,980 reflected in note 7 to the financial statements is environment expenditure of Kshs.2,501,980 out of which Kshs.2,060,000 was disbursed to various project management committees for planting of trees. However, actual expenditure returns from the project management committees were not availed for audit verification.

Under the circumstances, the regularity of environment expenditure of Kshs.2,060,000 could not be confirmed.

## **5.0 Acquisition of Assets**

The statement of receipts and payments reflects acquisition of assets figure of Kshs.1,084,349 relating to construction of additional floor of National Government Constituencies Fund Office at Kiminini Centre. However, designs, bill of quantities, approvals from various government departments, completion/interim certificates and minutes of site/inspection meetings were not provided for audit review, In addition, procurement records such as tender advertisement, tender evaluation and award minutes, letter of offer, acceptance letter and contract/agreement were not availed for audit verification.

Under the circumstances, the regularity of the expenditure of Kshs.1,084,349 could not be confirmed.

## **6.0 Bank Balances**

The statement of assets reflects a reconciled bank balance of Kshs.749,348. A review of the bank reconciliation statement for the month of June 2017 revealed unrepresented cheques totalling Kshs.9,576,637.90 which included stale cheques amounting to Kshs.847,637 which had not been reversed in the cash book. In addition, no information was provided on when the other unrepresented cheques amounting to Kshs.8,827,290 were presented and cleared by the bank.

Under the circumstances, the validity and accuracy of bank balances of Kshs.749,348 could not be confirmed.

## **7.0 Pending Staff Pay**

Note 12.2 to the financial statements reflects pending staff pay of Kshs.869,578 relating to unionisable employees. However, no documentary evidence was availed in support of the balance.

Under the circumstances, the validity and accuracy of pending accounts payable of pending staff pay of Kshs.869,578 could not be confirmed.

## **8.0 Other Pending Payables**

Note 12.3 to the financial statements reflects other pending payables of Kshs.30,948,275 which vary with the analysis of other pending payables figure of Kshs.28,500,000 reflected in annex 3 to the financial statements resulting in a variance of Kshs.2,448,275 which has not been reconciled.

Under the circumstances, the validity and accuracy of other pending payables of Kshs.30,948,275 could not be confirmed.

## **9.0 Summary of Fixed Assets Register**

Annex 4 of the summary of fixed assets register attached to the financial statements reflects total assets figure of Kshs13,225,327 as at 30 June 2017 which is the same as the closing balance for 2015/16. However, note 8 to the financial statements reflects construction of building figure of Kshs.1,084,349 which has been excluded from the summary of fixed assets register total figure.

Under the circumstances, the accuracy and completeness of the total assets figure of Kshs13,225,327 as at 30 June 2017 could not be confirmed.

## **10.0 Unsupported Project Management Committee Bank Balances**

Annex 4 of the financial statements reflects Project Management Committee (PMC) bank balances totalling Kshs.5,268,803 as at 30 June 2017. However, cash books, bank confirmation certificates, bank statements and bank reconciliation statements of the said bank accounts were not provided for review.

Consequently, the existence, accuracy, validity and completeness of the project management committee bank balance of Kshs. 5,268,803 could not be confirmed

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Kiminini 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 sections and other matter, I have determined that there are no other Key Audit Matters to communicate in my report.

## Other Matter

### 1.0 Budgetary Control and Performance

#### 1.1 Budget Absorption

During the year under review, the Fund had a total budget of Kshs.104,686,372 against expenditure amount of Kshs.72,752,657 or 69% resulting in under expenditure of Kshs.31,933,715 or 31% as summarized below:

Item	Budget (Kshs)	Actual Expenditure (Kshs)	Under /Over expenditure (Kshs)	Under/Over Expenditure % (Kshs)
Compensation of Employees	3,249,321	2,391,743	857,578	26
Use of goods and services	3,925,747	4,894,665	-968,918	(25)
Committee Expenses	7,924,331	8,536,920	-612,589	( 8 )
Transfers to Other Government Units	42,440,000	29,840,000	12,600,000	30
Other grants and transfers	45,872,598	25,992,980	19,879,618	43
Social Security Benefits	24,000	12,000	12,000	50
Acquisition of Assets	1,250,375	1,084,349	166,026	13
<b>Total</b>	<b>104,686,372</b>	<b>72,752,657</b>	<b>31,933,715</b>	<b>31</b>

Funds not utilized is an indication of approved programs not implemented. This is an indication that the budget has not fully met the intended objectives of improving delivery of goods and services to the residents of Kiminini constituency. In addition, management may be over budgeting on activities, hence need to relook in its budgeting mechanism to ensure priority areas are budgeted for.

#### 1.2 Project Implementation

During the financial year ended 30 June 2017, the Fund had an approved budget of Kshs.104,686,372 . However, project status report as at 30 June2017 showing a list of projects, approved amount, balance disbursed, project commencement date, date of completion, approved expenditure, actual expenditure and level of completion was not availed for audit review.

Under the circumstances, it was not possible to confirm the extent to which the constituents of Kiminini Constituency received goods and services for funds allocated for the year ended 30 June2107.

### 1.3 Projects Verification

Physical verification of five (5) projects costing Kshs. 2,600,000 revealed that, out of five (5) projects, four (4) projects were complete and in use while one (1) was on going as indicated below.

<b>Project</b>	<b>Activity</b>	<b>Amount Disbursed (Kshs.)</b>	<b>Observation</b>
Kiminini Police post	Fixing shutters, plumbing works, painting of 10 staff houses	1,000,000	Plumbing works done though no running water through the taps, staff houses painted
Mali Saba Police Patrol Base	Construction of two new houses for staff	400,000	Construction completed; structure done, paint job done, electrical works done
Milele Secondary School	Completion of classrooms	300,000	Classrooms fitted with window frames and windows, doors fitted, roof done with iron sheets
Misemwa Secondary School	Completion of 2 classrooms and Construction of toilet block	400,000	Labelling not done, classrooms completed: roofing with iron sheets, paint job done, window frames and windows fixed
St.Terasas Girls Secondary School Bikeke	Completion of dining hall	500,000	Dining hall not yet complete: structure done, window frames fitted, slab done, roofing done

### 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 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's 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's 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's 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**

**31+ July 2018**