

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Kisumu East 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund – Kisumu East 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 the National Government Constituency Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Other Matter section 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 Qualified Opinion

1. Inaccuracies in the Statement of Appropriation

The summary statement of appropriation indicates that the Fund received Kshs.146,030,747 during the year under review as shown in the actual on comparable basis column. The balance however differs from the sum of Kshs.140,201,818 reflected in the statement of receipts and payments. In addition, adjustments amounting to Kshs.64,634,196 shown in the statement have not been explained.

Consequently, the accuracy of the summary statement of appropriation for the year ended 30 June 2017 cannot be confirmed

2. Summary of Fixed Assets Register

The summary of fixed assets register as highlighted in annex 4 to the financial statements indicates that the total cumulative historical cost as at 30 June 2017 was

Kshs.34,702,251 as compared to the Kshs.20,980,791 as at 30 June 2016. However, the increase of Kshs.13,721,460 differs with the additions totaling Kshs.3,000,000 shown in the statement of receipts and payments as shaving been made in the year under review.

Consequently, the accuracy of the summary of fixed assets register cannot be confirmed.

3. Project Management Committee Bank Balances

The Project Management Committees (PMC) bank balances on Annexure 4 of the financial statements totaled Kshs.24,785,483 as at 30 June 2017. However, the balances are not supported with expenditure returns from project committees.

Consequently, the accuracy of the project management committee balances of Kshs.24,785,483 cannot 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 – Kisumu East 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budget Performance

The CDF’s approved budget for the year 2016/2017 amounted to Kshs.146,530,747. As shown in the following table which also compares budgeted and actual expenditure items:

| Expenditure | Approved Budget Kshs | Actual Expenditure Kshs | Variance Kshs | % of Utilization |
|--------------------|---------------------------------|------------------------------------|--------------------------|-------------------------|
| | | | | |

| | | | | |
|-------------------------------------|--------------------|--------------------|------------------|-----|
| Compensation of Employees | 5,453,737 | 4,803,260 | 650,477 | 12% |
| Use of goods and Services | 10,888,512 | 11,009,566 | -121,054 | -1% |
| Transfers to Other Government Units | 73,206,897 | 73,100,397 | 106,500 | 0% |
| Other Grants and Transfers | 52,106,602 | 45,874,821 | 6,231,781 | 12% |
| Acquisition of Assets | 3,000,000 | 3,000,000 | 0 | 0% |
| Other Payments | 1,875,000 | 1,250,000 | 625,000 | 33% |
| Total | 146,530,748 | 139,038,044 | 7,492,704 | |

During the period, the Fund's total expenditure was Kshs.139,038,044 which was equivalent to 95% of the approved budget and resulted in under-expenditure of Kshs.7,492,704. Underutilization of the budget denied the constituents services that were due to them.

2. Expenditures on Unapproved Projects

Included in transfers to other government units is Kshs.2,400,000 paid to various schools for the purchase of laboratory equipment. Also other grants and transfers include Kshs.450,000 for construction of Rapogi Footbridge. However, no indication has been given on how these projects were approved since they are not in the approved projects list.

3. Other Grants and Transfers

3.1 Irregular Designation of Expenditure as Emergency

Note 6 indicates that payments for emergency projects totaled Kshs.6,500,000 during the year under review. Included in this amount was a payment of Kshs.2,200,000 for construction of two classrooms at Tido Primary School. However, the use of emergency funds did not meet the thresholds set for urgent and unforeseen needs for expenditure as required by Section 8 (3) of the National Government Constituencies Development Fund Act, 2015. Further, inspection of the project during audit in May 2018 revealed multiple cracks on the walls yet the project was completed in July 2017.

Consequently, the use of emergency funds amounting to Kshs.2,200,000 contravened the provisions of the Constituencies Development Fund Act 2015.

3.2 Anomalies Road Project Expenditures

Note 6 to the financial statements indicates that payments for construction of roads totaled Kshs.2,854,064 during the year under review. However, the following anomalies were noted from the review of project records:

i) Kondele – Rabuor Road

Kshs.1,498,720 was paid for this project during the year under review. However, the was project among those included in the approved projects list.

ii) Ringroad – Nyaori Road

Expenditure totaling Kshs.1,355,344 was incurred on this project during the year. However, procurement documents for identification and award of the contractor were not availed for audit review. Further, there was no indication that the project had been approved by the National Government - Constituency Development Fund Board since it was not in the approved projects list.

Consequently, the propriety of the Kshs.2,854,064 incurred on construction of roads by NCDF - Kisumu East cannot 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 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 management is aware of the intention to liquidate the Fund or to cease its 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

18 September 2018