

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Kitui South Constituency set out on pages 5 to 20, which comprise 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, 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 - Kitui South Constituency as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, nothing else 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

1.0 Accuracy, Completeness and Presentation of the Financial Statements

The statement of receipts and payments reflects deficit of Kshs.12,135,664 although accurate casting of all items in the statement indicates correct deficit as Kshs.12,138,664 resulting in an unexplained variance of Kshs.3000. Further, the Cash Basis Accounting Method under the International Public Sector Accounting Standards (IPSAS) reporting format prescribed by the National Treasury requires that a report on follow-up of the previous year's auditor's recommendations form part of the financial statements. However, although the Fund had an adverse opinion in 2015/2016, no report was included in the financial statements on the progress made in resolving the issues raised in the previous audit report.

In the circumstances, the accuracy, completeness and presentation of the financial statements for the year ended 30 June 2017 cannot be confirmed.

2.0 Cash and Cash Equivalents

The statement of financial assets for the year under review reflect a cash and cash equivalents balance of Kshs.23,138,179 as at 30 June 2017. However, the bank reconciliation statement for the month of June included unrepresented cheques totaling to Kshs.2,311,995 which further included stale cheques totaling to Kshs.490,524 which had not been replaced or written back to the cash book as at 30 June 2017.

In addition, the statement of cash flow indicates a cash and cash equivalents balance at the end of the year of Kshs.23,135,179 which differs from the Kshs.23,138,179 reported in the statement of financial assets by unexplained and reconciled variance of Kshs.3,000.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.23,138,179 as at 30 June 2017 could not be ascertained.

3.0 Incomplete Project: Ikutha Social Hall

During the year under review, the Fund transferred Kshs.500,000 to Ikutha Social Hall for completion of the Social hall. However, a physical verification done on 15 May 2018 revealed that the project was still not completed and doors were not fixed. Further, the project had been under construction for over three years since September 2014 as per project implementation status.

Consequently, the propriety and value for money of the Kshs.500,000 expenditure as at 30 June 2017 could not be confirmed.

4.0 Doubtful Procurement on Construction of Dining Hall: Kenya Medical Training College (KMTTC) – Mutomo

During the year under review, the Fund transferred Kshs.3,000,000 to Mutomo KMTTC for construction of a dining hall. The contract was awarded to the winning bidder on 22 February 2017. However, no documentary evidence was availed for audit verification on whether the losing bidders were given regret letters as required by Section 87 of the Public Procurement and Asset Disposal Act, 2015.

In the circumstance, the Fund was in breach of the Act and the Fund may no have gotten value for money for lack of fair competition as required.

5.0 Ikutha Technical Training Institute

The Fund transferred Kshs.10,000,000 to Wote Technical Training College as part of the Fund contribution towards the construction of Ikutha Technical and Vocational College which was co-funded with the Ministry of Education. The funds were meant to finance one workshop, 3 lecture rooms and an office room, all located in the ground floor of the building. However, it was not justified by way of sectional bill of quantities that the funding would be fully utilized as required by National Government Constituency Fund Act, 2015 Section 23 (1).

Consequently, the propriety and value for money for Kshs.10,000,000 transfer to Ikutha Technical Institute as at 30 June 2017 could not be confirmed.

6.0 Unaccounted for Re-possession of School Bus Expenditure: Kisayani Secondary School

During the financial year under review, the Fund transferred Kshs.1,000,000 to Kisayani Secondary School for repayment of bank loan the school had obtained from Kenya Commercial Bank for procurement of a School bus. However, a physical verification done on 15 May 2018 including an oral confirmation by the School's Principal revealed that the bus was repossessed by the bank on 20 October 2017 and since then, seven (7) months later, no action had been done by either the school management or the Fund to get back the bus from the bank.

Under the circumstance, the regularity and accountability of Kshs.1,000,000 expenditure as at 30 June 2017 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kitui South 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 the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

Budget and Budgetary Controls

During the financial year under review, the Fund had an approved budget of Kshs.262,964,075 comprising of Kshs.81,896,552 for the year under review and Kshs.181,067,524 brought forward from the previous year. However, the Fund received Kshs.139,988,509 from the Board leading to a revenue shortfall of Kshs.122,975,566. The Constituents of Kitui South did not therefore get promised and expected services equivalent to the Kshs.122,975,566 revenue shortfall as at 30 June 2017.

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. 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 of Kenya. 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 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, but not for the purpose of expressing an opinion 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 offering 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 consolidated/ 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 offering 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 of the fund's activities 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

17 July 2018