

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUTU CHACHE NORTH 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 - Kitutu Chache North Constituency set out on pages 6 to 32, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, 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, the financial position of National Government Constituencies Development Fund - Kitutu Chache North 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 Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matter 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. Cash and Cash Equivalents

Bank balances as at 30 June 2017 amounted to Kshs.20,829,385. However, the bank reconciliation statement as at 30 June 2017 reflected a cash book balance of Kshs.15,783,015 leading to an unreconciled difference of Kshs. 5,046,369.

Further, the bank reconciliation statement included several unrepresented stale cheques totaling Kshs.2,129,499 that were issued in the financial year under review and prior years but had not been reversed in the cashbook as at 30 June 2017.

Consequently, the accuracy of cash and cash equivalents balance of Kshs.20,829,385 as at 30 June 2017 cannot be confirmed.

2. Payments Not Adequately Supported

Included in the use of goods and services balance of Kshs. 8,608,829 reflected in the statement of receipts and payments for the year under review is Kshs. 1,500,000 incurred on other committee allowances out of which Kshs.940,000 was spent on various activities which were, however, not adequately supported with proper expenditure records.

Consequently, the propriety of the expenditure of Kshs. 940,000 cannot be confirmed.

3. Project Expenditure Returns

The Constituency Development Committee disbursed a total of Kshs.44,229,312 being transfers to other government units in the year under review. However, disbursements totaling Kshs.1,300,000 to two primary schools and a secondary school did not tally with the expenditure schedules of Kshs.923,770 submitted for audit review. The resultant variance of Kshs.376,230 has not been reconciled or explained.

Consequently, the propriety of disbursements totaling Kshs.1,300,000 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-Kitutu Chache North 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 section, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matters

1.0 Budget Analysis

Comparison of budgeted and actual expenditure balances revealed the variances detailed below:

Items	Budget Kshs.	Actual Kshs.	Variance Kshs.	Performance (%)
Compensation of Employees	2,586,150	2,528,633	57,517	98
Use of Goods and Services	7,067,539	8,608,829	(1,541,290)	122
Transfers to Other Government Units	48,650,000	44,229,312	4,420,688	91

Other Grants and Transfers	88,206,720	68,814,250	19,392,470	78
Other Payments	500,000	0	500,000	0
Total	147,010,409	124,181,024	22,829,385	84

As the table shows, the Fund underspent on three items namely; compensation of employees, transfers to other government units and other grants and transfers. The total amount budgeted was Kshs.147,010,409 but total amount spent was Kshs.124,181,024 leading to a variance of Kshs. 22,829,385 equivalent 84% of the budget.

In view of the under-expenditure the Fund did not achieve its budgeted goals.

2.0 Project Implementation Status

Seventeen (17) projects were verified during the audit in the month of June 2018 and out of which twelve (12) were found to be complete while three (3) were on-going and two (2) had stalled as shown below:

	Project	Activity	Amount Disbursed Kshs.	Status
1	Nyakeyo Primary School	Renovation of two classrooms, plastering and re-roofing & painting	400,000	Only one classroom completed.
2	Nyakeyo Secondary School	Construction of kitchen foundation, brick coursework, roofing and flooring	400,000	4 door pit latrine completed. 19 lab tables bought and all in use
3	Nyansakia PAG Mixed Secondary School	Construction of two new classrooms foundation, brick course work roofing and flooring	400,000	Flooring, fixing windows and doors not done. Ongoing project
4	Kegogi Health Centre	Completion of staff houses by plastering and painting	1,140,000	Stalled
5	Engoto Health Centre	Construction of Health Centre	300,000	Stalled.
	Total		2,640,000	

The delay in implementation of the projects has denied the constituents access to public services.

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 going concern basis of accounting unless the management is aware of the intention to liquidate the Fund or 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 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 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 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

11 October 2018