

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND MACHAKOS TOWN CONSITUENCY 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 Machakos Town Constituency set out on pages 6 to 39, 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- Machakos Town 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 Standard (Cash Basis) and do not comply with the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

### **Basis for Adverse Opinion**

#### **1. Presentation and Disclosures of the Financial Statements**

The financial statements for the year ended 30 June 2017 have not been properly identified in that page 2 and page 11 to 23 are missing. The financial statements do not therefore comply with the presentation format prescribed by the Public Sector Accounting Standards Board.

#### **2. Inaccuracies in the Financial Statements**

##### **2.1. Failure to Prepare a Trial Balance**

During the year under review, National Government Constituencies Development Fund- Machakos Town Constituency did not prepare a trial balance. Consequently, the basis of

the financial statements figures and balances for the year ended 30 June 2017 cannot be confirmed.

## 2.2 Comparative Figures

The following differences have been noted between comparative figures (2015/2016) reflected in the financial statements for the year ended 30 June 2017 and the balances shown in the audited financial statements for 2015/2016:

<b>Item</b>	<b>2015/2016 Comparative Figures Kshs</b>	<b>2015/2016 Audited Balances Kshs</b>	<b>Variance Kshs</b>
<b>Statement of Receipts and Payments</b>			
-Transfers to other government entities	34,474,312	36,886,647	(2,412,335)
-Total payments	70,429,042	72,841,377	(2,412,335)
-Surplus/ Deficit	51,268,733	48,856,398	2,412,335
<b>Statement of Assets</b>			
-Bank Balance	55,541,558	54,951,544	590,014
Prior year adjustments	-	1,822,321	(1,822,321)
<b>Statement of Cash Flows</b>			
-Transfers to other government units	34,474,312	36,886,647	(2,412,335)
-Total Payments for operating expenses	70,429,042	72,841,377	(2,412,335)
-Adjustments during the year	-	1,822,321	(1,822,321)
-Net cash flow from operating Activities	51,268,733	50,678,719	590,014
-Net increase in cash and cash equivalent	51,268,733	50,678,719	590,014
-Cash and Cash Equivalent at End of Year	55,541,558	54,951,544	590,014

However, contrary to the requirements of paragraph 1.5 of the IPSAS Cash Basis reporting framework, no disclosures have been made in the notes to the financial statements to the effect that comparative information is restated. In addition, the nature of the error and the respective amounts of the corrections have similarly not been disclosed.

## 3. Use of Goods and Services

The statement of receipts and payments reflects an amount of Kshs.7,825,517 in respect of use of goods and services. However, a recasting of the schedule in support of the figure (Note 5 to the financial statements) gives a total of Kshs.7,869,188, hence a casting error of Kshs.43,671. The reported amount for use of goods and services also includes expenditure on two lap tops amounting to Kshs.72,000 which should have been accounted under acquisition of assets. In the circumstance, the accuracy of use of goods and services figure of Kshs.7,825,517 as at 30 June 2017 cannot be confirmed.

#### **4. Other Payments**

The statement of receipt and payments reflects other payments of Kshs.763,256 and as disclosed at note 9 to the financial statements. However, supporting documents for the expenditure were not provided for audit verification. Consequently, the validity of other payments figure of Kshs.763,256 as at 30 June 2017 cannot be confirmed.

#### **5. Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers figure of Kshs.65,660,722 which include an amount of Kshs.18,803, 600 paid out as bursaries to tertiary institutions. The latter includes payments to Mumbuni Driving School amounting to Kshs.8,160,000 in respect to sponsorship of constituents for driving classes. However, no records were provided for audit verification to confirm how the driving school was procured to offer the services and who the beneficiaries were. Consequently, it has not been possible to confirm whether the Government procurement law and regulations were adhered to and, whether value for money was received in the procurement of the driving school services.

#### **6. Cash and Cash Equivalents**

The statement of assets reflects a bank balance of Kshs.739,169 as at 30 June 2017. However, the cash book in respect of the main account at Equity Bank, Machakos Branch reflect opening balance of Kshs.55,625,558.05 and opening cash in hand balance of Kshs.350,000 all adding up to Kshs.55,975,558.05. However, the audited financial statements for the year ended 30 June 2016 reflects closing bank balance of Kshs.54,951,544 and nil cash in hand balance resulting to an un-explained and un-reconciled difference of Kshs.1,024,014.05 in the brought forward cash and bank balances. Consequently, the accuracy of cash and cash equivalents balance of Kshs.739,169 as at 30 June 2017 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- Machakos Town 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 audit opinion.

#### **Key Audit Matters**

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

## **Other Matter**

### **1. Non Adherence to Imprests and Public Procurement Regulations**

**1.1** The management of Machakos Town Constituency Development Fund expended more than Kshs.1,606,500 on procurement of goods and services through cash imprests. This was done in contravention of regulation 91(1) of the Public Finance Management Act (County Government) Regulations 2015, which restricts the use of imprest facility on payments that cannot be conveniently made through the cash office or bank account. The procurements also exceeded the statutory maximum for low value procurement method of Kshs.10,000.

**1.2** No procurement documents were provided to confirm the method of procurement used in respect of branding services of the Fund's projects for which an amount of Kshs.396,000 was incurred. It has, therefore, not been possible to confirm whether the procurement was carried out in compliance with the public procurement law and regulations in force.

**1.3.** During the year under review, the Fund issued to officers multiple imprests cumulatively amounting to Kshs.1,606,500 before they had surrendered the previous ones contrary to regulation 93 (4) (b) of the Public Finance Management Act (County Government) Regulations 2015. The Fund management was therefore in breach of the law.

### **2. Lack of Staff Establishment and Scheme of Service**

During the year under review, expenditure on compensation of employees amounted to Kshs1,512,097. The Fund had six employees made up of clerk of works, records clerk, driver, office cleaner, tea lady and public relations officer. However, there was no staff establishment in place indicating the staff requirements of the Fund. In addition, there was no scheme of service showing the job descriptions and specifications of the positions.

### **3. Budgetary Performance**

The Fund's budgeted for receipts amounting to Kshs.198,095,347, out of which a total of Kshs.166,557,057 was actually received. This translates to actual receipts of 84% and a 16% shortfall. The Fund's total estimated expenditure was Kshs.198,095,347 against total actual expenditure of Kshs.166,407,903 resulting in an under expenditure of Kshs.31,687,444, which is an indication of funds not fully utilized and approved programs not implemented. The budget did not, therefore, fully meet the intended objectives of improving delivery of services to the residents of Machakos Town Constituency.

### **4. Project Implementation Status**

The Fund incurred expenditure totalling Kshs.83,217,718 on transfers to other government units for implementation of various public projects. Audit inspection of fourteen of these projects revealed the following:

No.	Institution	Project	Allocation	Status
1	Machakos Primary School	Purchase of a 51 seater sch. Bus	6,500,000	100% complete and in use
2	Kasinga Secondary School	Construction of two classrooms	1,000,000	100% complete and in use but not branded.
3.	Kyanguli memorial secondary school	Construction of a library	1,000,000	33% complete. Not branded. Require more funding.
4.	Metuma secondary school	Construction of two standard class room	1,000,000	100% complete and in use
5.	Kamuthanga secondary school	Purchase of a 33 seater sch. Bus	1,000,000	Commitment of Kshs.2M paid bus not delivered. Require more funds.
6.	Keaa secondary school	Construction of a standard class room	700,000	100% complete and in use-Not branded
7.	<i>Kwa-Kitaa primary School</i>	Renovation of 5 number of class rooms	800,000	100% complete and in use
8.	Mua Farm secondary school	Plastering, roofing and flooring of admin. Block	1,500,000	70% complete project and in use- Not branded. Require more funds to complete
9.	Katelembo centre of excellence	Purchase of a 51 seater school bus	1,000,000	Commitment of Kshs.2M paid bus delivered and in use
10.	Kyambuko secondary school	Purchase of a 51 seater school bus	2,000,000	Bus delivered and in use
11.	Kyamuthinza primary School	Renovation of 4 classrooms	800,000	Project complete and in use
12.	Mbaluku primary school	Construction of 1 number classroom	600,000	Project complete and in use
13.	Muumandu secondary school	Purchase of a 51 seater school.bus	6,500,000	Project complete and in use
14.	Baraka SA Kavyuni secondary school	Plastering, roofing and flooring of science lab	800,000	Works done and in use though project 80% complete

No satisfactory explanations have been given for non-branding of four projects with total allocation of Kshs.4,200,000 as detailed above, a phenomenon that could lead to loss of funds through duplicated financing.

### **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 service and using the going concern basis of accounting unless the management either intends 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 sustaining 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 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 January 2019**