

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MOYALE 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-Moyale Constituency set out on pages 5 to 18, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and the summary statement of appropriation : recurrent and development 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 paragraph, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund-Moyale 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 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 Unaccounted for Bursaries

Note 5 to the financial statements for the financial year under review reflected other grants and other payments totaling Kshs.71,565,160 out of which Kshs.4,381,060 and Kshs.10,748,749 was disbursed as bursaries to Secondary schools and Tertiary institutions respectively. However, records made available indicate that only Kshs.278,500 had been acknowledged by Tertiary institutions out of the Kshs.10,748,749 disbursed leaving a balance of Kshs.10,470,249 un-acknowledged while Secondary schools had acknowledged Kshs.1,556,000 out of the Kshs.4,381,060 disbursed leaving a balance of Kshs.2,825,090 not acknowledged. In the circumstances, the regularity of the bursaries of Kshs.13,295,339 that were not acknowledged could not be confirmed.

2.0 Irregular and Unsupported Compensation of Employees Expenditure

Note 2 to the financial statements reflects compensation of employees' balance of Kshs.3,025,920 as at 30 June 2017. However, personnel files for five (5) employees were not availed for audit review. Further the Fund recruited 9 employees, while it was legislated by the Constituency Development Fund (CDF) Act, 2013 which at the time of engagement stipulated that a CDF could employ a maximum of 5 staff members leading to an unexplained over recruitment of 4 staff.

In the circumstances, the regularity and legality of the Kshs.3,025,920 expenditure could not be confirmed.

3.0 Unsupported Expenditure on Training

Note 3 to the financial statements reflects a balance of Kshs.1,396,000 for training expenses. However, no supporting documents including training venues, attendance registers, facilitators and reports generated from trainings were availed for audit review.

In the circumstances, the regularity of the expenditure amounting to Kshs.1,396,000 could not be confirmed.

4.0 Unaccounted For Sports Project Funds

Note 5 to the financial statements reflects a balance of Kshs.1,000,175 for sports projects. Information availed revealed that the allocation was to be used to carry out a constituency sports tournament and the winning teams, schools or clubs to be awarded with trophies, balls and games kits. However, a review of supporting documents revealed that the funds remained unutilized as at the end of the financial year while the Project Management Committee (PMC) did not return the unspent funds.

In the circumstances, the value for money of Kshs.1,000,175 disbursement could not be confirmed.

5.0 Lack of Value for Money on Transfers to Roban Sigale Mixed Day Secondary Schools

Note 4 to the financial statements reflects Kshs.15,870,000 in respect of transfer to secondary schools which included Kshs.4,175,000 for construction of a dormitory and purchase of 25 double decker beds for Roban Sigale Mixed Day Secondary School. Supporting documents availed and a physical verification for the project carried out on 24 May 2018 revealed that the school was not in operation and no sign board was in place. Further, the dormitory was complete but not in use contrary to the Project Implementation status report which indicated that the project was in use. In addition, poor workmanship was noted while procurement documents were not availed for audit review.

In the circumstances, the value for money of the Kshs.4,175,000 expenditure could not be confirmed.

6.0 Construction of a Boda Boda Shed at Sololo

Note 5 to the financial statements reflects a security projects balance of Kshs.3,260,000 which included Kshs.1,260,000 in respect to construction of a bodaboda shed at Sololo town. However, there was no Board authority for the re-allocation from the security expenditure. A physical verification carried out on 24 May 2018 revealed that the shed was being used by other businesses including sale of Khat (Miraa) instead of boda boda riders.

In the circumstances, the propriety of the Kshs.1,260,000 expenditure as at 30 June 2017 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-Moyale 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

1.0 Budgetary Control and Performance

The combined summary statement of appropriation reflects an original budget of Kshs.81,896,552. However, the amount received from the CDF Board was Kshs.103,457,049 which included Kshs.62,508,772 relating to the financial year 2015/2016 but received in the year under audit and Kshs.40,948,277 for the financial year 2016/2017. The Fund did not therefore receive Kshs.40,948,274 out of the Kshs.81,896,552 budget for the year under review.

In addition, the actual expenditure as at 30 June 2017 was Kshs.128,254,697 utilized to fund both recurrent and development expenditures resulting in an over expenditure of Kshs.24,797,648.

In the circumstances, the Fund did not operate within the approved budget during the financial year.

2.0 Project Implementation Status

The Fund had planned to implement 38 projects during the financial year under review at a cost of Kshs.74,525,863. However, 26 projects worth Kshs.20,816,897 had not started while 4 projects with a cost of Kshs.23,389,138 were ongoing and only 8 projects worth Kshs.30,319,828 had been completed as analyzed below;

Project Status	Sector	Amount Allocated (Ksh.)	Amount Disbursed (Ksh.)	No. of Projects
Completed	Education	1,655,000	1,655,000	2
	Roads	24,570,000	24,570,000	5
	Emergency	4,094,828	4,094,828	1
	Sub Total	30,319,828	30,319,828	8
Ongoing	Education	2,915,000	2,915,000	3
	Bursary	20,474,138	20,474,138	1
	Sub Total	23,389,138	23,389,138	4
Not Started	Education	12,204,500	0	15
	Security	6,982,500	0	8
	Sports	600,000	0	1
	Environment	500,000	0	1
	Others-CDF office	529,897	0	1
	Sub-Total	20,816,897	0	26
Grand Total		74,525,863	53,708,966	38

In the circumstances, the residents of Moyale Constituency did not get services worth Kshs.20,816,897 being the budgeted but not started projects as at 30 June 2017.

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, 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 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 scepticism 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 July 2018