

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MUHORONI 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 – Muhoroni Constituency set out on pages 7 to 27, which comprise the statement of financial 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 – Muhoroni 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 matter described in Other Matter section of my report based on the procedures performed, 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. Summary Statement of Appropriation

The summary statement of appropriation indicates that the Fund received Kshs.142,907,825 during the year under review as shown in the actual on comparable basis column. This is however at variance with the figure indicated in the statement of receipts and payments of Kshs.84,143,631. The adjustments of Kshs.61,011,274 differs with the fund balance brought forward of Kshs.58,964,194 reflected in the statement of financial assets and liabilities.

Consequently, the accuracy of the summary statement of appropriation could not 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 2016 was Kshs.38,387,629. The cumulative cost as at 30 June 2017 has not been reported. In addition, the cost of the Fund's motor vehicle has not been included.

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

3. Unsupported Payments

The statement of receipts and payments indicates that the total payments for the year under review were Kshs.141,809,687. However, payments totaling Kshs.21,344,064 as shown below were not supported with minutes from the Constituency Development Fund Committee as required by section 12(5) of the National Government Constituencies Development Fund Act, 2015.

ITEM	Amount Kshs
Compensation of employees	2,682,372
Use of goods and services	8,966,477
Other grants and transfers	9,589,455
Acquisition of assets	105,760
Total	21,344,064

Consequently, the propriety of payments totaling Kshs.21,344,064 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 – Muhoroni 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 matter described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budget Performance

The Fund's approved budget for the year 2016/2017 amounted to Kshs.142,907,825. The analysis of comparison of budget and actuals is as shown below:

Expenditure	Approved Budget Kshs	Actual Expenditure Kshs	Variance Kshs	% of Utilization
Compensation of employees	3,008,381	3,008,381	0	100%
Use of goods and services	10,812,002	13,318,354	(2,506,352)	123%
Transfers to other government units	72,216,992	69,701,598	2,515,394	97%
Other grants and transfers	56,764,690	55,675,594	1,089,096	98%
Acquisition of assets	105,760	105,760	0	100%
Total	142,907,825	141,809,687	1,098,138	99%

During the year under review, the Fund incurred an expenditure of Kshs.141,809,687 or 99% of the approved budget. There was however an over expenditure in use of goods and services which has not been explained by management. The total expenditure on recurrent expenditure was 19.4% of total funds received in the year and 11.5% of total payments. The National Government Constituencies Development Fund Act 2015, sections 25(6) and 25(9) give a limit of 9% for both administration expenses and payments for monitoring and evaluation. The funds used for recurrent expenditures were therefore above the limits set by the Act.

2. Construction of a Dormitory at Koru Girls High School

Included in transfers to other government units is Kshs.8,943,103 for the construction of a dormitory at Koru Girls High School. Inspection of the works done and paid for indicated that painting works were incomplete. The tiles were also partially fixed and they are ceramic instead of the granite type in the bill of quantities. The ground floor is in use but the upper floor is incomplete. The completion of the project depends on additional funds being provided since the funds from the school which was to contribute 35% of the total cost have not been forthcoming.

3. Construction of Ogwodo- Ngiti Bridge

The statement of receipts and payments indicates that other grants and transfers for the year under review were Kshs.55,675,594. Included in this amount were transfers of Kshs.1,386,656 for the construction of Ogwodo/Ngiti bridge. The contract was awarded during the year at a total sum of Kshs.5,209,636. However, the contractor was not identified through national open tender as required by the Public Procurement and Assets Disposal Act, 2015 since the threshold is above Kshs.4,000,000 set for works for class C entities. Even though The bridge is complete and in use, however, there was no labelling to indicate that it was a CDF project.

4. Construction of Songhor Administration Police Line

Included in other grants and transfers is Kshs.1,882,106 for the construction of Songhor AP line. The contract sum was of Kshs.2,193,525. Due to insecurity in the area the contractor abandoned the works after having been paid Kshs.1,382,106. Another contractor was picked from the initial list of bidders to complete the works and paid Kshs.500,000. Contract documents and bills of quantities for the new contract have not been provided for audit review. Inspection of the physical works in July 2018 revealed that the six rooms constructed had not been painted. The two latrines and bathrooms did not have doors. Even though emergency funds were utilized to pay for part of the cost, the building is still unoccupied since the National Police Service has not yet posted officers to the area. There was labeling of police post to indicate it was a CDF project.

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 continue to sustain services, 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 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 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

5 September 2018