

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NORTH HERR CONSTITUENCY 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-North Horr Constituency set out on pages 5 to 15, which comprise the statement of financial assets 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 the 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-North Horr 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 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 procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

### Basis for Adverse Opinion

#### 1.0 Accuracy and Completeness of Financial Statements

#### 1.1 Variances Between the Ledger and the Financial Statements

The Financial statements for the year under review reflected a balance of Kshs.55,740,025 on three (3) expenditure items while the respective schedules reflected a balance of Kshs.55,631,151 resulting in unexplained and unreconciled variance of Kshs.108,874 as follows;

Item	Financial Statements (Kshs)	Supporting Schedules (Kshs)	Variance (Kshs)
Compensation of Employees	2,331,100	2,259,600	(71,500)
Use of Goods and services	7,444,509	7,556,509	112,000

other grants and other payments	45,964,416	45,815,042	(149,374)
<b>TOTALS</b>	<b>55,740,025</b>	<b>55,631,151</b>	<b>(108,874)</b>

In the circumstances, the accuracy and completeness of the financial statements balances for the year ended 30 June 2017 could not be ascertained.

## 1.2 Presentation and Disclosure of the Financial Statements

The table of content and the key constituency information and management in the financial statements both bear the same page number (Page Number 1) while all the page numbers in the financial statements were not visible.

In addition, Paragraph two and three of the statement of NGCDF Management Responsibilities at page four of the financial statements for the year under review indicated that the information contained therein was for the financial year ended 30 June 2015. However, the information required for this audit should have been for the financial year ended 30 June 2017.

Further, Note 5 to the financial statements reflects other grants and other payments balance of Kshs.45,964,416 which included environment projects of Kshs.769,698 which have been incorrectly referred to as other capital grants and transfers.

In the circumstances, the accuracy in the presentation and disclosure of the financial statements as at 30 June 2017 could not be confirmed.

## 2.0 Unaccounted for Bursaries

Note 5 to the financial statements reflects bursary disbursements of Kshs.22,235,652 and Kshs.16,216,900 to secondary schools and tertiary institutions respectively all totaling to Kshs.38,452,552. However, the respective supporting schedules reflects Kshs.22,125,278 and Kshs.16,177,900 to secondary schools and tertiary institutions respectively both totaling to Kshs.38,303,178 resulting in unexplained variances of Kshs.110,374 and Kshs.39,000 for the secondary and tertiary institutions respectively both totaling to Kshs.149,374. Further, records made available indicated that only Kshs.750,000 had been acknowledged by tertiary institutions out of Kshs.16,216,900 disbursed leaving a balance of Kshs.15,427,900 un-acknowledged while secondary schools had not acknowledged the total amount of Kshs.22,125,278 disbursed resulting in a total of Kshs.37,553,178 un-acknowledged.

In the circumstances, the accuracy, propriety and accountability of the bursaries expenditure of Kshs.38,452,552 as at 30 June 2017 could not be confirmed.

## 3.0 Committee Expenses

Note 3 to the financial statements reflects other committee expenses and committee allowance balances of Kshs.1,573,000 and Kshs.1,590,000 respectively both totaling to Kshs.3,163,000. However, the respective supporting schedules reflected a total of

Kshs.3,275,000 resulting in an unexplained and unreconciled variance of Kshs.112,000. Further, and included in the Kshs.3,163,000 expenditure was Kshs.1,666,000 which was paid to the Constituency Development Fund Committee (CDFC) for monitoring and evaluation of projects which exceeded the approved budget of Kshs.1,000,000 by Kshs.666,000 while another Kshs.450,000 was paid to a Constituency Oversight Committee for monitoring and evaluation, which exceeded the one percent cap of Kshs.100,000 set by Section 9 of the National Government Constituencies Development Fund (NGCDF) Act, 2015 by Kshs.350,000.

In the circumstances, the accuracy and propriety of the Kshs.3,163,000 expenditure reflected in the financial statements as at 30 June 2017 could not be confirmed.

#### **4.0 Unsupported and Irregular Compensation of Employees**

The financial statements for the year under review reflected a balance of Kshs.2,331,100 under compensation of employees while the respective schedules showed Kshs.2,259,600 resulting in an unexplained and unreconciled variance of Kshs.71,500. Further, out of the Fund's nine staff members, personnel files for four (4) employees and employment contracts for eight (8) were not availed for audit review. In addition, only a maximum of five staff were to be employed by CDF and not nine employees.

In the circumstances, the accuracy, legality and propriety of the expenditure of Kshs.2,331,100 as at 30 June 2017 could not be confirmed.

#### **5.0 Unsupported Office and General Supplies and Services Expenditure**

Note 3 of the notes to the financial statements reflected Kshs.1,644,000 spent under office and general supplies services. However, no supporting documents were availed for audit review.

In the circumstances, the accuracy and propriety of the Kshs.1,644,000 expenditure as at 30 June 2017 could not be confirmed.

#### **6.0 Unsupported Transfers to Tertiary Institutions**

Note 4 of the notes to the financial statements reflected Fund transfers of Kshs.5,443,104 to tertiary institutions. However, supporting documents availed for audit review revealed that the disbursements were made to secondary schools and there was no Board approval in regard to the re allocation.

In the circumstances, the propriety of the expenditure of Kshs.5,443,104 as at 30 June 2017 could not be confirmed.

#### **7.0 Irregular Emergency Expenditure**

Note 5 to the financial statements reflects an emergency expenditure of Kshs.4,353,066 which included Kshs.3,557,067 in respect to purchase of fuel and vehicle accessories including tyres, batteries and general services which however,

did not meet the threshold of an emergency as defined under Section 8(3) of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, the propriety of the Kshs.3,557,067 expenditure on emergency projects 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-North Horr 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 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 discussed in the Basis for Adverse 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 Budget Control and Performance.**

The combined summary statement of appropriation reflected an original budget of Kshs.81,896,552. However, the amount received from the Board was Kshs.51,448,277 which included Kshs.10,500,000 relating to the financial year 2015/2016 but received in the year under audit and Kshs.40,948,275 for the year 2016/2017. The Fund did not receive Kshs.40,948,275 of the sum of Kshs.81,896,551 budgeted for during the year. In addition, the statement of receipts and payments reflects receipts of Kshs.51,448,277 and payments of Kshs.71,283,129 resulting in a deficit of Kshs.19,834,852. Further, the statement of receipts and payments and the combined summary statements of appropriation reflected receipts of Kshs.51,448,277 and Kshs.80,228,483 respectively resulting in an unexplained and unreconciled variance of Kshs.28,780,277.

#### **2.0 Project Implementation Status**

During the year under review, and as per note 4 and 5 of the financial statements, the Fund disbursed Kshs.15,543,104 and Kshs.45,964,416 respectively both totaling to Kshs.61,507,520 to undertake various projects in the Constituency. However, the project implementation status report was not provided for audit review. Consequently, it was not possible to confirm the number of projects that were planned for implementation during the year 2016/2017.

### **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.

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**

**17 July 2018**