

**REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT
CONSTITUENCIES DEVELOPMENT FUND - NYARIBARI CHACHE CONSTITUENCY
FOR THE YEAR ENDED 30 JUNE 2017**

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Nyaribari Chache Constituency set out on pages 5 to 36 which comprise the statement of assets as at 30 June 2017 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, 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-Nyaribari Chache Constituency as at 30 June 2017, and of its financial performance and its cash flows for the period 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. Inaccuracies in the Financial Statements

1.1 Expenditure Balances

There are variances between the balances reflected in the financial statements and those reflected in the expenditure schedules as shown below:

Item	Financial Statements Kshs.	Schedules Kshs.	Variance Kshs.
Bursary to Secondary Schools	7,243,959	13,243,959	6,000,000
Bursary to tertiary Institutions	33,282,712	35,571,257	2,288,545
Transfer to Health Institutions	8,200,000	3,800,000	4,400,000
Transfer to Secondary Schools	17,300,000	13,200,000	4,100,000
Total			16,788,545

No plausible explanation has been provided by management for the variances.

1.2 Trial Balance

The trial balance as at 30 June 2017 reflects a variance of Kshs.21,197,596 which however, has not been explained. Consequently, the correctness of the financial statements for the year ended 30 June 2017 cannot be confirmed.

2. Fuel Not Accounted For

Included in the use of goods and services balance of Kshs.8,320,471 is Kshs.1,854,000 reportedly spent on for fuel, oil and lubricants. However, examination of records relating to the expenditure confirmed use of fuel costing Kshs.84,480. Therefore, expenditure on fuel, oil and lubricants Kshs.1,769,520 incurred in the year under review was not supported with records and as a result the propriety of the expenditure cannot be confirmed. In addition, the management did not maintain a fuel register during the year as required by stores regulations.

3. Expenditure Not Supported

Included under transfers to other government entities balance of Kshs.34,050,000 is Kshs.2,400,000 disbursed to tertiary institutions. However, there was no indication that the disbursements were included in the approved budgets of the said institutions. In addition, the remittance of the funds to the project management committees could not be confirmed as these were not reflected in the respective bank statements. Further, physical location of the projects was not disclosed to enable audit verification.

Consequently, the propriety of the expenditure of Kshs.2,400,000 reported to have been disbursed to tertiary institutions during the year under review cannot be confirmed.

4. Fixed Assets Summary

The summary of fixed assets registers under annex 4 reflects a balance of Kshs.15,101,772 for the year ended 2015/2016. However, the closing balance of fixed assets in the previous year's (2015/2016) audited statements was Kshs.20,225,376. The difference of Kshs.5,123,604 has not been explained.

Consequently, the fixed assets summary is not correct.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Nyaribari Chache 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 described in the

Basis for Adverse Opinion section, I have determined that there are no Other Key Audit Matters to communicate in my report.

Other Matter

1. Budget Analysis

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

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Performance (%)
Compensation of Employees	3,000,000	1,647,800	1,352,200	55
Use of Goods and Services	8,896,552	8,320,471	576,081	93
Transfers to Other Government Entities	61,999,071	34,050,000	27,949,071	55
Other Grants and Transfers	85,999,071	62,629,671	23,369,400	73
Total	159,894,694	106,647,942	53,246,752	67

As the table shows, the Fund underspent on four (4) items namely; compensation of employees, use of goods and services, transfers to other government entities and other grants and transfers. The total amount budgeted was Kshs.159,894,694 but total amount spent was Kshs.106,647,942 leading to a variance of Kshs.53,246,752 which performance was equivalent to 67% absorption rate. Because of the under-absorption, the Fund did not achieve its goals for the year under review and the constituents did not receive all the services due to them.

Non-Disclosure of Project Management Committees (PMC) Account Balances

The management has not disclosed closing balances in the PMC accounts for the financial year ended 30 June 2016 as required by the reporting format prescribed by the Public Sector Accounting Standards Board.

3. Summary Statement of Appropriation Recurrent and Development

The summary statement of appropriation indicates an original budget of Kshs.81,896,552 and an adjustment of Kshs.77,998,144 resulting in the total budget of Kshs.159,894,695. However, the management has not provided schedules of projects that were earmarked for implementation from the funds rolled over from the previous year.

In the absence of the list of earmarked projects, it is not possible to confirm the nature of projects implemented through the funds that were rolled-over from the previous year

4. Change of Project Activity

Included under transfers to other government units balance of Kshs.34,650,000 is Kshs.13,200,000 transferred to secondary schools out of which the management disbursed Kshs.3,000,000 for construction of a tuition block at Otamba Girls Secondary School.

However, audit inspection carried out on 26 June 2018 revealed that the tuition block was not built. Instead, the funds were used for other purposes such as levelling of a playing field, purchase of a school bus and a laboratory project. Further, the change in project activity was not approved by the Board as required.

Consequently, the management breached the law by diverting funds to unauthorized projects and activities.

Management's Responsibility 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.

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 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.

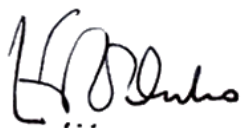
As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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, but not for the purpose of expressing an opinion 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 offering 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 offering 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 of the Fund to express an opinion on the financial statements.

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

29 January 2019