

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYARIBARI MASABA 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 Masaba Constituency set out on pages 5 to 16, 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, because of the significant 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 Masaba Constituency as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the 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 of the Financial Statements

1.1 Opening Balance Difference

The statements of receipts and payments for the year ended 30 June 2017 revealed that opening balances were not correctly transferred from the previous year's financial statements on the following items;

Item	Opening Balances as per statements Kshs.	Audited Balance Kshs.	Variance Kshs.
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Other Grants and Transfers	32,326,068	31,255,587	1,070,481
Use of goods and services	732,778	7,683,249	6,950,471
Surplus/Deficit	51,739,856	52,797,537	1,057,681
Fund Balance b/f	13,626,640	12,451,959	1,174,681

Consequently, the accuracy and completeness of the opening balances could not be confirmed.

1.2 Failure to Prepare a Trial Balance

The management did not prepare and provide for audit review the trial balance for the year ended 30 June 2017. Therefore, it is not clear how the financial statements submitted for audit were prepared without a trial balance.

2. Cash and Cash Equivalents

The statements of financial assets reflect a bank balance of Kshs.10,974,252 as at 30 June 2017. However, the bank balance as per the reconciliation statement is reflected as Kshs.7,302,810. In addition, the balance includes stale unrepresented cheques totaling Kshs.327,304 not reversed in the cash book as at the end of the year.

Consequently, the cash and cash equivalents balance of Kshs.7,302,810 as at 30 June 2017 could not be confirmed.

3. Receipts Not Disclosed

The statement of receipts and payments for the year ended 30 June 2017 reflected a total of Kshs.81,936,551 as receipts. However, a review of the cash book revealed that a total of Kshs.200,000 was received as project supervision fees but was omitted from the total receipts.

Consequently, the receipts balance of Kshs.81,936,551 for the year ended 30 June 2017 was not correctly stated.

4. Procurement

4.1 Procurement Records Not Availed

Included in the other grant and transfers balance of Kshs.78,428,068 is Kshs.11,480,000 relating to emergency projects. A review of emergency payments revealed that Kshs.4,000,000 was disbursed to Ikorongo Police Post for construction, installation of electricity, fencing, water harvesting, piping and lightning arrestors.

However, expenditure returns and other supporting documents were not availed for audit review.

Consequently, it has not been possible to confirm the propriety of the expenditure.

4.2 Procurement of Vehicle Tyres

Included in the use of goods and services balance of Kshs.7,183,218 is an amount Kshs.207,000 for purchase of tyres for five (5) motor vehicles. The direct procurement was done on the basis of a proforma invoice contrary to Section 105 of the Public Procurement and Assets Disposal Act, 2015 which states that a procuring entity may use a request for quotations from the register of suppliers for a procurement if the estimated value of goods, works or non-consultancy services being procured is less than or equal to the prescribed maximum value for using requests for quotations as prescribed in the regulations.

Consequently, the management was in breach of the law.

5. Bank Charges Not Disclosed

The statement of receipts and payments reflects expenditure of Kshs.7,183,218 on the use of goods and services. However, bank charges totaling Kshs.59,279 paid to Cooperative Bank of Kenya as bank charges were not disclosed.

Consequently, the balance of Kshs.7,183,218 on use of goods and services was not correctly stated.

6. Non-filing of Expenditure Returns

Included under other grants and other transfers figure of Kshs.78,428,068 is Kshs.1,556,034 paid for purchase of sports kits for 48 teams and Kshs.1,556,034 for planting of tree seedlings in selected schools all totaling to Kshs.3,112,068 . However, expenditure returns for the sports kits and tree seedlings projects were not availed for audit review.

Consequently, the propriety of the Kshs.3,112,068 relating to sports and environment expenditures could not be confirmed.

7. Funding of Devolved Government Functions

Included in other grants and transfers balance of Kshs.78,428,068 is Kshs.1,200,000 disbursed to fund health functions. However, even after the enactment of the NG-CDF Act, 2015 on 16 February 2016, the management continued to fund County government functions contrary to Section 24 of the Act which states that projects under this Act shall be respect of works, services falling within the functions of the national government under the Constitution.

Consequently, the management was in breach of the NG-CDF Act, 2015.

8. Emergency Projects

Included in the total grants and payments balance of Kshs.78,428,068 is Kshs.11,480,000 relating to emergency projects. However, a total of Kshs.4,400,000 was disbursed for construction of a police post from the emergency vote which did not qualify for funding as emergency in accordance with Section 8(3) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the propriety of Kshs.4,400,000 spent on emergencies could not be confirmed.

9. Irregularities in Implementation of Projects

Included in grants and other transfers figure of Kshs.78,428,068 as reflected in the statement of receipts and payments are various projects amounting to Kshs.11,480,000 implemented by various PMCs in the year under review. However, the following anomalies were noted,

- i. Moi Kisii Primary School was allocated Kshs.818,194 paid to a contractor for construction of a class room which had not been constructed as at the time of the audit.
- ii. Kiamokama Administration Police Post received Kshs.300,000 for construction of a latrine which had not been constructed at the time of the audit.
- iii. Metembe Dispensary was allocated Kshs.300,000 for roofing, fixing doors and plastering of walls. However, works had not been done at the time of the audit.
- iv. Mogweko Dispensary received Kshs.300,000 for roofing, fixing doors and plastering. The works had not been done at the time of the audit on 10 May 2018.

Consequently, the propriety and completeness of these expenditures amounting to Kshs.1,718,194 for the year ended 30 June 2017 could not be confirmed.

10. Bursary Disbursements Not Supported

Included in the transfer to other grants and transfers figure of Kshs.78,428,068 is Kshs.63,836,000 issued as bursaries. However, minutes and payments vouchers for bursaries totaling Kshs.28,017,000 were not availed for audit review.

Consequently, the propriety of Kshs.28,017,000 paid out as bursaries 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- Nyaribari Masaba 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 matter described

in the Basis for Adverse 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. Budgetary Control and Performance

During the year under review, the Fund spent Kshs.143,928,892 against a budgeted amount of Kshs.136,211,795 resulting to an under-absorption of Kshs.7,717,097 representing 5% as highlighted below:

Expense Item	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Budget Utilization Difference Kshs.	% of Utilizat- ion
Payments				
Compensation of Employees	980,000	667,000	313,000	68
Use of goods and services	2,765,000	7,183,218	(4,418,218)	260
Transfers to Other Government Units	76,383,744	49,933,509	26,450,235	65
Other grants and transfers	63,800,148	78,428,068	(14,627,920)	123
Totals	143,928,892	136,211,795	7,717,097	95

The management underspent a total of Kshs.26,775,235 on two (2) expenditure items and also over spent a total of Kshs.19,046,138 on two items. No explanation was provided for the big variations.

2. Failure to Address Prior Year Matters

The management did not outline remedial measures on matters relating to cash and cash equivalents and implementation of projects reported in the previous year as required.

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 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:

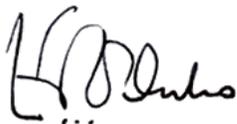
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 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

20 September 2018