

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - RARIEDA 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 – Rarieda Constituency set out on pages 7 to 28, which comprise the statement of financial assets as at 30 June 2017, statement of receipts and payments, statement of cash flows and summary statement of appropriation 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.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements do present fairly, the financial position of National Government Constituencies Development Fund- Rarieda 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).

In addition, as required by Article 229 (6) of the Constitution, based on the procedures performed, Except for the effects of the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Transfer to Primary and Secondary Schools

Included in the financial statement under note 4 is transfer to other government entities of Kshs.48,670,500 is Kshs.41,670,500 in respect of transfers to primary and secondary schools. However, the payment schedule reflected Kshs.37,250,000 resulting to unreconciled/unexplained variance of Kshs.4,420,500.

The accuracy of transfer to primary and secondary schools of Kshs.41,670,500 could not be confirmed.

2. Project Implementation

Included in the financial statement under note 4 is transfer to other Government entities of kshs.48,670,500 which includes Kshs.19,700,000 and Kshs.21,970,500 to secondary and primary schools respectively. However, physical verification of the projects revealed the following anomalies:

- i. No bank statements from the schools were made available for audit review.
- ii. No evidence was availed to confirm that the projects were implemented and supervised in consultation with the line Ministries

- iii. Mirau primary school funds of Kshs.800,000 which was meant for the renovation of three (3) classrooms was reallocated to the construction of one (1) classroom without authority from the Board.

The regularity of the expenditure totaling Kshs.41,670,500 could not be confirmed.

3. Erection of Solar Flood Lights

Included in other grants and other transfers of Kshs.41,816,500 is Kshs.8,700,00 in respect of solar flood lights categorized under to security projects. Examination of the payments vouchers and physical verification of the projects on 30 May 2018 revealed the following anomalies:

- i. No evidence of the criteria that was used to evaluate the quotations was availed for audit review.
- ii. The list of prequalified suppliers was not made available for audit review
- iii. No service order (SO) was signed between the procuring entity and the suppliers who were awarded the above works.
- iv. The bills of quantities (BQ) of the two contractors (Solareen and Lightmark Limited respectively) who were awarded the above works did not quote for the specific amounts for each component that would be used to erect the solar flood lights but rather, they quoted a whole sum figure of Kshs.4,350,000 each. We were therefore unable to confirm which components/parts that were used to erect the solar flood lights.
- v. The line Ministry was not involved in implementing the above works and no evidence that projects were duly supervised at every stage.
- vi. Physical verification of the solar flood lights on 30 May 2018 revealed that all the six solar flood lights were erected in 2014/2015 financial year expenditure and not 2015/2016 nor financial years.

The solar flood lights were not working as was disclosed from the residents of the respective places where the lights were erected.

The regularity and value for money of the expenditure of Kshs.8,700,000 for the year ended 30 June 2017 could not be confirmed.

4. Bursary Disbursements

Included in the other grants and other payments balance of Kshs.41,816,500 under note 5 were transfers of bursaries to tertiary, secondary and special schools totalling Kshs.20,474,000. However, the following anomalies were noted:

- i. There was no official receipts and acknowledgement letters from the beneficiary institutions to confirm that the funds amounting to Kshs.20,470,000 were received.
- ii. Ochieng Oneko Secondary school and Chianda Boys High School revealed that the amount allocated to each respective institution were not acknowledged by any formal communication, no bank statement was availed and the amount allocated to each student by a receipt was not made available.
- iii. The cheque release register was not maintained by the Constituency indicating that the cheques were released and received by the respective institutions.

Consequently, the regularity of the bursaries of Kshs.20,474,000 disbursed to respective institutions 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- Rarieda 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 judgement, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section, have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Budget Performance Analysis

During the year under review Rarieda CDF received transfers from treasury amounting to Kshs.95,646,552 against original budget of Kshs.81,896,552. During the same period Rarieda CDF absorbed Kshs.102,060,935. A comparison of budget and actual amounts for the year under review revealed the following:

CDF underspent on compensation of employees and acquisition of asset respectively. The water project was approved in 2015/2016 financial year expenditure but payment for the same was made in 2016/2017 financial year expenditure but the payment voucher of Kshs.200,000 was not made available for audit examination

Failure to utilize development and recurrent vote budget constrains implementation of programmes which are meant to benefit the people of Rarieda Constituency.

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 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.

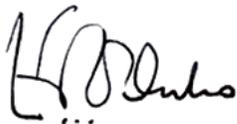
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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

11 October 2018