

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – RONGAI 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 – Rongai Constituency set out on pages 5 to 15, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 and Section 11 of the National Government Constituencies Development 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 effects of the matter 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 - Rongai Constituency as at June 30, 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, 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. Stale Cheques

Examination of the bank reconciliation statement as at 30 June 2017 disclosed unrepresented cheques of Kshs.8,200,090.85. Out of this amount, cheques worth Kshs.2,103,722.55 drawn in favor of various payees were stale. It was not clear why the stale cheques were not written back to cash book or validated

In the circumstances, it was not possible to confirm the accuracy of the reported cash and cash equivalents balance of Kshs.9,002,364 in the statement of assets.

2. Non acknowledgment of Bursary

An expenditure of Kshs.64,077,147 was incurred on other grants and other payments during the period under review. Out of this amount, an expenditure of Kshs.44,144,147

was incurred on bursary to Secondary Schools, Tertiary Institutions and Special Schools. However, no acknowledged letters/receipts were produced for audit for audit examination and it therefore not possible to ascertain whether the funds reached the intended beneficiaries.

In the circumstances, it was not possible to confirm the expenditure as a proper charge to public funds.

3. Unsupported Expenditure

An expenditure of Kshs.4,301,096 was incurred on committee expenses during the period under review. However, no attendance register was produced for audit examination and it was therefore not possible to confirm the attendance of the committee and its Subcommittee members in all the meetings held during the year.

In view of the above, the propriety of the expenditure 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 – Rongai 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 section, I have determined that there are no key audit matters to communicate in my report.

Other Audit Matter

1.0 Over Expenditure

The statement of receipts and payments for the year ended 30 June 2017 reported an expenditure on use of goods and services of Kshs.8,881,592 against a budget of Kshs.8,552,007. The Rongai National Government Constituencies Development Fund Committee (NG-CDFC) therefore exceeded the budget amount by Kshs.328,993 without approval.

No explanation was given for the over expenditure.

2.0 Lack of Risk Management Policy

During the period under review, the Rongai NG-CDFC did not have in place a customized Risk Management Policy as required by Treasury circular No. 3/2009 of 23 February 2009 and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks such as:

- Assessing the likelihood or occurrence of risks.
- Estimating the significance of risks.
- Identifying business risks relevant to financial reporting objectives.
- Deciding about actions to address those risks.

No explanation was given for failure to have a risk management policy in place.

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 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 in accordance with ISSAIs, I exercise professional judgment 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.

A handwritten signature in black ink, appearing to read 'E. R. O. Ouko', with three dots below the signature.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

10 August 2018