

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - RUARAKA 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- Ruaraka Constituency set out on pages 5 to 23, which comprise the statement of assets and liabilities as at 30 June 2017, and the 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. 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 matters 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- Ruaraka 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 comply with the Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing else 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. Other Grants and Transfers

The statement of receipts and payments reflects expenditure of Kshs.89,017,315 in respect of other grants and transfers which include an amount of Kshs.48,256,887 under the item agriculture (markets). Out of this amount, Kshs.30,266,934 was used for construction of 4A Modern Market within the constituency. However, only Kshs.15,166,934 was supported by documentary evidence. The balance of Kshs.15,100,000 relates to funds transferred to Ruaraka Market PMC and for which documents such as bank statements, payment vouchers and completion certificates were not provided for audit verification. Further, even though the works were done up to the foundation level, the project has been abandoned and some parts of the works are

already falling apart. Consequently, the validity of the expenditure of Kshs.15,100.000 in respect of the funds transferred to Ruaraka Market PMC cannot be confirmed.

2. Cash and Cash Equivalents

As disclosed at Note 10A to the financial statements, the fund had an overdrawn cash book balance of Kshs.1,979,865 as at 30 June 2017. It is not clear why the management continued to issue cheques well aware of the limited funds in the bank account. The management therefore contravened Section 28 (4) of the Public Finance Management Act, 2012 which prohibits an accounting officer of a National Government entity from overdrawing the bank beyond the limit authorized by the National Treasury or a board of a national government entity, if any. Consequently, the validity of the overdrawn cashbook balance of Kshs.1,979,865 as at 30 June 2017 cannot 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 - Ruaraka 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 audit opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance to the audit of the financial statements for the current year. Except for matters described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

Budget and Budgetary Controls

During the year under review, the fund budgeted expenditure amounted to Kshs.103,092,406. However, overall actual expenditure for the year was Kshs.105,072,271 resulting in an over expenditure of Kshs.1,979,865 which is equivalent to about 2% of the total budget. However, the approval for the over-expenditure was not produced for audit review. Further analysis of the budget against actual expenditure indicate administration expenses for the year amounted to Kshs.7,150,048 against a budget of Kshs.7,370,690 resulting in an under expenditure of Kshs.220,642. In addition, out of the development budget of Kshs.95,721,716, an amount of Kshs.97,922,223 was spent resulting in an over expenditure of Kshs.2,200,507, an indication that some expenditure items were incurred without budgetary provisions and plans.

Responsibility 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 going concern basis of accounting unless the management either intends 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.

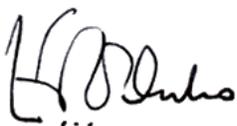
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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 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 sustaining 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 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

22 August 2018