

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - South Mugirango Constituency set out on pages 5 to 27, which comprise the statement of receipts and payments, statement of assets as at 30 June 2017, statement of cash flows, 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-South Mugirango Constituency as at 30 June 2017, and 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 manner.

Basis for Adverse Opinion

1. Anomalies in Financial Statements

1.1 Unexplained Expenditure Variance

The statement of receipts and payments reflects an expenditure of Kshs.8,418,706 in respect of goods and services which however, differs by Kshs.546,598 with the sum of Kshs.8,965,304 derived from the expenditure schedule presented for audit.

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

1.2 No Trial Balance

The management did not present the trial balance as at 30 June 2017 for audit along with the financial statements.

In the circumstance, the basis of the financial statements submitted for audit is not clear and therefore their accuracy and validity cannot be confirmed.

2. Lack of Clarity on Previous Year's Project Allocations

The summary of the statement of appropriation reflects an original budget of Kshs.81,896,601 and an adjustment of Kshs.67,894,413 resulting in a total budget to Kshs.149,791,015. However, the adjustments have not been supported by an approved receipts code list showing year 2015/2016 projects financed in 2016/2017. In the circumstance, it is not possible to identify the 2015/2016 projects financed thorough the budget for the year under review.

3. Old Unpresented Cheques

The statement of assets as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.7,443,717. However, a review of the bank reconciliation statement as at 30 June 2017 revealed inclusion of stale cheques amounting to Kshs.338,603 that, contrary to public financial management regulations, had not been reversed in the cash book as at 30 June 2016.

4. Non-submission of Expenditure Returns by Project Management Committees

The Constituency Development Fund Committee made disbursements totaling Kshs.70,565,362 under transfers to other government entities budget item during the year under review. The transfers benefited primary and , secondary schools as well as tertiary and health institutions. However, disbursements totaling Kshs.20,400,000 made to project management committees(PMCs) were not supported with expenditure returns including bank statements, stores records and minutes.

In the absence of supporting documents, the occurrence and propriety of the disbursements totaling Kshs.20,400,000 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- South Mugirango 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 financial statements. Except for the matter described in the Basis for Adverse Opinion section, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budget Absorption Rate

Comparison of budgeted and actual expenditures revealed the variances highlighted below:

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Performance (%)
Compensation of Employees	2,720,627	2,720,627	0	100
Use of Goods and Services	8,548,117	8,418,706	129,411	
Transfer to Other Government Entities	72,565,362	70,565,362	2,000,000	97
Other Grants and transfers	61,142,702	61,142,702	0	100
Other Payments	6,814,207	1,499,900	5,314,307	22
Total	151,791,015	144,347,297	7,443,718	95

As the data shows, the management underspent on three (3) items namely; use of goods and services, transfers to other government entities, and other payments. The total amount budgeted was Kshs.151,791,015 but aggregate expenditure was Kshs.144,347,297 resulting in a variance of Kshs.7,443,718 that depicted a budget absorption rate of 95%.

2. Overpayment on Construction of Kisii University Campus.

Included in the transfers to other government entities balance of Kshs.70,565,362 is Kshs.19,437,908 disbursed to tertiary institutions. Part of the allocation to tertiary institutions related to a contract for construction of a tuition block (Phase II) at Nyangweta Campus of Kisii University. The contract was awarded to a local company at a contract sum of Kshs.12,394,745. However, examination of payments made in respect of the contract revealed that a total of Kshs.13,949,161 was paid resulting in an overpayment of Kshs.1,544,415.

Management have not provided any plausible explanation for the overpayment amounting to Kshs.1,544,415. As a result, the validity of the expenditure cannot be confirmed.

3. Project Implementation Status

During the year under review, a sample of sixteen projects (16) costing Kshs.34,939,161 were verified during an audit inspection conducted in June 2018. Out of this number, 14 projects were found to be complete and in use while works on the remainder two were ongoing.

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 intends to liquidate the Fund or to cease operations or have no realistic alternatives 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 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 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 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