

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND- STAREHE CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017

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## REPORT ON THE FINANCIAL STATEMENTS

### Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund- Starehe Constituency set out on pages 5 to 40, which comprise the statement of assets 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, 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 - Starehe Constituency as at 30 June 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not 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 public money has not been applied lawfully and in an effective way.

### 1. Submission of Unsigned Financial Statements

Contrary to the requirements of Section 84 of the Public Finance Management Act, 2012 and the guidelines issued by the Public Sector Accounting Standards Board, the financial statements of National Government Constituencies Development Fund- Starehe Constituency for the year ended 30 June 2017 submitted on 29 September 2017 for audit were not signed by the Chairman of Constituency Development Fund Committee and Fund Account Manager. The Fund is therefore in breach of the law.

### 2. Presentation and Disclosures in the Financial Statements

Both the table of contents and key constituency information and management appear as page No. 1 although both are at separate pages. In addition, page number 11 to 23 have not been printed. Further, the following inconsistencies have been noted in the table of contents.

	Page No. in the	Page Number in

Item	table of content	the financial statements
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In addition, the referencing format in the statement of receipts and payments is not consistent with the format appearing in the notes to the financial statements. For instance, transfers from CDF board-AIEs received is referenced to Note 1 in the statement of receipts and payments while the item is referenced as 1.1.1.1.1.1.1 in the notes to the financial statements. Consequently, the financial statements have not been prepared in accordance with the format prescribed by the Public Sector Accounting Standards Board.

### **3. Acquisition of Assets**

The statement of receipts and payments reflects under acquisition of assets expenditure totalling of Kshs. 1,990,000. However, the summary of fixed assets register at Annex 4 reflects nil balance for the current and previous year. No explanation has been provided for this anomaly.

### **4. Use of Goods and Services**

The statement of receipts and payments reflects under use of goods and services expenditure amounting to Kshs.3,655,825. However, the annual expenditure returns on the use of goods and services amounted to Kshs.4,392,725 resulting in unexplained variance of Kshs. 736,900. Consequently, the accuracy of the expenditure figure of Kshs.3,655,825 on use of goods and services for the year ended 30 June 2017 cannot be confirmed.

### **5. Ineligible Expenditure**

The statements of receipts and payments reflects expenditure of Kshs.40,555,216 under transfers to other government units which as disclosed in Note 6 to the financial statements includes an amount of Kshs.13,814,007 transferred to health institutions. However, health is a devolved function falling under the County Government. The expenditure was incurred contrary to Section 24 of the National Government Constituency Development Fund Act, 2015 which limits projects funding to those falling under National Government function and therefore ineligible. Consequently, the National Government Constituencies Development Fund Board and the Starehe Constituency Development Fund Committee were in breach of the law.

### **6. Cash and Cash Equivalents**

The statement of assets reflects an overdrawn cash book balance of Kshs.13,977,273. The bank statement as at 30 June 2017 reflects a balance of Kshs.10,342,219. However, both bank confirmation certificate and bank reconciliation statement were not provided for audit verification. Further, payment vouchers amounting to Kshs.13,088,936 were not posted in the cash book. Consequently, the completeness and accuracy of the overdrawn bank balance of Kshs.13,977,273 as at 30 June 2017 cannot be confirmed.

## **7. Non Remittance of Statutory Deductions**

The Fund did not remit PAYE deductions to Kenya Revenue Authority totalling Kshs.1,659,337 as at 30 June 2017. Consequently, the Fund risk incurring interest and penalties for non-remittance of taxes. No explanation has been provided for this omission.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Starehe Constituency management 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 judgement, were of most significance to the audit of the financial statements for the current year. Except for matters described in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

#### **Budget and Budgetary Controls**

During the year under review, the Fund budgeted to spend Kshs.94,396,552. However, overall actual expenditure for the year amounted to Kshs.98,294,366 resulting in over expenditure of Kshs.3,897,814 which is equivalent to about 4% of the total budget. Approval for the over expenditure was not presented for audit review.

Further analysis of the budget against actual expenditure indicate that administration expenses for the year amounted to Kshs.6,371,075 against a budget of Kshs.6,474,602 resulting in an under expenditure of Kshs.103,527. Out of the development budget of Kshs.87,921,950, an amount of Kshs. 91,923,291 was spent resulting in over expenditure of Kshs.4,001,341. This implies that some expenditure items were incurred without budgetary provisions and approvals from the NG-CDF Board.

The over expenditure was mainly on transfers to other Government Units at Kshs. 78,094 and other grants and transfers at Kshs.3,933,247.

### **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.

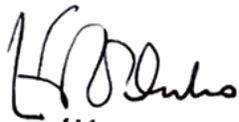
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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**

**16 January 2019**