

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TESO SOUTH 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- Teso South Constituency set out on pages 1 to 13, which comprise the statement of financial assets and liabilities 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. 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 paragraph, the financial statements present fairly, in all material respects, the financial position of the Fund 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 National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that 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

Payment for Work not Delivered

During the year under review, the Fund incurred a total of Kshs.53,730,000 on transfers to other government entities. Included in the expenditure was an amount of Kshs.7,000,000 disbursed to Amukura Girls' High School for construction of a dining hall. However, physical verification revealed that some project activities included in the costed bill of quantities amounting to Kshs.1,858,010 as detailed in the table below were not done:

Works not Done	Amount Kshs.
Rain Water Goods	97,650.00
Doors	464,330.00
Windows	281,250.00

Finishes	1,014,780.00
Total	1,858,010.00

In addition, it was not possible to confirm whether the works were supervised by government technical department as required since work completion certificates were not presented for audit review.

In the circumstance, the propriety of the expenditure amounting to Kshs.7,000,000 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 - Teso South 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 other Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Performance

The approved expenditure budget for the Fund was Kshs.153,232,671.00 but only Kshs.118,074,811.00 was spent resulting in an under-expenditure of Kshs.35,157,860.00 equivalent or 22.94% of the I budget as detailed below;

Audit Components	Current year Figures	Current year Budget	Difference Between Actual and Budget	% Difference
	Kshs.	Kshs.	Kshs.	%
Payments				
Compensation of Employees	2,764,406.00	3,590,633.00	826,227.00	-23.01%
Use of goods and services	6,748,488.00	7,947,488.00	1,199,000.00	-15.09%
Transfers to Other Government Units	53,730,000.00	77,142,222.00	23,412,222.00	-30.35%
Other grants	52,231,917.00	61,952,328.00	9,720,411.00	-15.69%

and transfers				
Acquisition of Assets	2,600,000.00	2,600,000.00	-	0.00%
Total	118,074,811.00	153,232,671.00	35,157,860.00	-22.94%

2. Project Performance

The Fund was to implement a total of 73 projects/programmes by different sectors during the financial year under review as shown below. Further analysis indicated that 39 projects representing 53% of the portfolio were on going while 34 representing 47% of the portfolio had been completed as at the time of audit:

Sector	Budgeted projects		Ongoing			Completed		%
	No.	Kshs.	No.	Kshs.	%	No.	Kshs.	
Primary School Infrastructure Project	45	20,630,000	22	12,230,000	49%	23	8,400,000	51%
Secondary School Project	4	13,100,000	1	600,000	25%	3	12,500,000	75%
Tertiary School Projects	1	800,000	1	800,000	100%	-	-	0%
Security Projects	18	4,684,000	15	3,984,000	83%	3	700,000	17%
Sports Activities	1	1,238,062	0	-	0%	1	1,238,062	100%
Environmental Activities	4	1,237,800	0	-	0%	4	1,237,800	100%
Total	73	41,689,862	39	17,614,000	53%	34	24,075,862	47%

Further, the Fund incurred expenditure on two roads projects costing Kshs.7,646,734 that were not budgeted for in the approved project proposal for the year.

In the circumstances, the public did not receive services expected to be delivered through the projects that were not completed.

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 continue as a going concern, disclosing, as applicable, matters related to going concern/ sustainability of services and using the going concern accounting assumption unless the management is aware of the intention to liquidate the Fund or cease its operations.

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 of Kenya. 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 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.

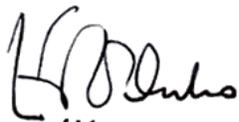
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- 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 as a going concern. 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 as a going concern.
- 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 of the entities or business activities 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

17 July 2018