

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – TIGANIA EAST 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 Constituency Development Fund – Tigania East Constituency set out on page 6 to 17, 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, except for the effect 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 – Tigania East 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 the National Government Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections 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

1.0 Cash and Cash Equivalents

The Statement of Assets reflects bank balance of Kshs.4,252,494 as at 30 June, 2017. However, the bank reconciliation statements reflected unrepresented cheques totaling to Kshs.3,900,631 which included stale cheques totaling to Kshs.298,811 which had not been adjusted in the cashbook. Further, the statement of assets, the statement of cash flows and note 8 of the notes to the financial statements for the year under review reflected prior year adjustments of stale cheques of Kshs.1,635,641 which were not presented for audit verification so as to ascertain their authenticity, existence and accuracy.

In addition, Annex 2 to the financial statements reflected sixty-four (64) Project Management Committee (PMC) bank accounts with balances totaling to Kshs.3,746,117. However, the Fund did not provide the bank statements, cash books and bank reconciliation statements for these accounts.

In the circumstance, the accuracy and completeness of the cash and cash equivalents balance of Kshs.4,252,494 could be ascertained.

2.0 Irregular Implementation of Road Projects

During the financial year under review, the Fund budgeted, funded and implemented road projects totaling to Kshs.15,000,000 as reflected in Note 5 to financial statements. However, the road projects did not fall within the functions of the Fund as per Section 24 (1) of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, the Fund was in breach of Section 24 (1) of the National Government Constituencies Development Fund Act, 2015.

3.0 Construction of Muthara Chief's Camp

During the financial year under review, the Fund through minute numbers Min4/CDFC/IGC/2/16 and MIN5/CDFC/TG/30/8 of the Constituency Development Fund Committee (CDFC) meetings held on 16 February 2017 and 30 August 2016 respectively granted Kshs.500,000 through cheque No. 3627 dated 09/07/2016 and cheque No. 4071 of Kshs.300,000 both totaling to Kshs.800,000 to Muthara Chief's Office Project for the construction and completion of Chief's Office. However, a physical verification of the project done on 11 May 2018 established that although the Office had been constructed and completed, it was not in use.

Consequently, it was not possible to ascertain that the Fund received value for money for the Kshs.800,000 expenditure.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund – Tigania East 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 judgement, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

During the financial year under review, the Fund had an approved budget of Kshs.146,084,721 comprising of Kshs.81,896,552 for financial year 2016/2017 and Kshs.64,188,169 being funds brought forward from financial year 2015/2016. The total

expenditure by the Fund in the financial year 2016/2017 was Kshs.142,660,662 representing an absorption rate of 98% of the total approved budget as follows;

Expenditure Analysis	Budget (Kshs.)	Actual (Kshs.)	Variance (Kshs.)	Absorption (Kshs.)
Compensation of Employee	3,508,376	1,977,952	1,530,424	56%
Use of Goods and services	6,916,866	6,140,160	776,706	89%
Transfer to Other Government Unit	52,084,103	52,955,173	(871,070)	102%
Other Grants and Transfers	83,575,377	81,587,377	1,988,000	98%
Total	146,084,721	142,660,662	3,424,059	98%

In the circumstances, the Constituents did not receive promised and expected service equivalent to the Kshs.3,424,059 under-expenditure as at 30 June 2017.

2. Completeness of Financial Statements

The financial statements presented for audit included an Annex 2 containing the PMC bank balances as at 30 June 2017 and annex containing the progress report on follow up on the previous year's audit issues. However, the two annexes were not disclosed in the table of contents and did not have page numbers creating doubts as to whether they were meant to be part of the financial statements as at 30 June 2017.

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/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting.

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.

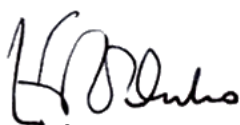
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Assembly'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 Assembly'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 Assembly 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 Assembly 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

31 July 2018