

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - UGENYA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Ugenya Constituency set out on pages 5 to 39, 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: 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 described in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund -Ugenya 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 do not comply with the National Government Constituencies Development Fund Act, 2015.

Further, 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 way.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

1.1 Financial Statements Schedules

The financial statements for the year under review reflect significant variances between the balances shown in the financial statements and those on the respective expenditure schedules as outlined below:

Item	Financial Statements Kshs	Schedules Kshs	Variance Kshs
Bursary –Secondary Schools	15,568,000	14,758,200	809,800

Bursary-Tertiary Institutions	7,830,729	7,519,000	311,729
Routine Maintenance –Other Assets	441,261	104,541	336,720
Totals	23,839,990	22,381,741	1,458,249

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

1.2 Trial Balance

The Management did not provide for audit the trial balance as at 30 June 2017. Therefore, it is not clear how the financial statements submitted for audit were prepared without a trial balance.

1.3 Summary Statement of Appropriation

The summary statement of appropriation for recurrent and development combined for the year under review has casting errors of Kshs.1,962,348 on budget utilization difference for transfers to other government units, and Kshs.7,000,000 on other grants and transfers.

Consequently, the correctness of the financial statements for the year under review cannot be confirmed.

2. Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents balance of Kshs,8,410,011 as at 30 June 2017. However, cash-in-hand balance of Kshs.3,109,676 was not disclosed under Note 10B of the financial statements . In addition, no Board of Survey certificate for the cash and cash equivalent balances was presented for audit.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs. 8,410,011 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 -Ugenya 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 the financial statements. Except for the matters 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 Performance

Comparison of budget and actual figures revealed variances as detailed below:

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Performance (%)
Compensation of Employees	4,939,013	4,897,769	41,244	99
Use of Goods and Services	9,000,256	9,170,592	(170,336)	102
Transfers to Other Government Entities	42,541,034	47,022,208	(4,481,174)	110
Other Grants and Transfers	60,541,878	50,714,771	9,827,107	84
Acquisition of Assets	0	8,505	(8,505)	
Total	117,022,182	111,813,845	5,208,336	95

Comparison of budgeted and actual balances revealed that the Fund underspent on two (2) items namely; compensation of employees and other grants and transfers and overspent on two (2) others namely use of goods and services and transfers to other government entities. The total amount budgeted was Kshs.117,022,182 and total amount spent was Kshs.111,813,845 leading to a variance of Kshs.5,208,337 equivalent to 95% budget absorption rate.

2. Progress and Follow Up of Previous Year Report

The management did not indicate in the financial statements the status and follow up of audit issues reported in the previous year as required by Public Sector Accounting Standards Board Reporting Template.

3. Purchase of Computers for Ugenya Medical Training College

The management purchased 15 Hewlett Packard desktop computers at a total cost of Kshs.877,830 from a local company through a contract awarded to the highest bidder. However, minutes of the tender committee meeting that evaluated the bids were not presented for audit to explain how the contract was awarded. In addition, physical verification confirmed existence of only eleven (11) computers. Further, the college management did not avail goods received notes and stores ledger for audit review and as a result it was not possible to confirm that all the 15 computers were received by the office.

Consequently, four computers worth Kshs.234,088 were not accounted for.

4. Projects Verification

Twenty (20) projects allocated Kshs.35,640,684 in aggregate were verified during the audit and their status found to be as follows:

	Project Name	Activity	Budget (Kshs)	Observation
1	Miyare Primary	Renovation of 10 Classrooms	1,000,000	Renovation of three classes and office done and in use
2	Anyiko Primary	Renovation of Classrooms	935,000	Renovation done and in use
3	Komoro Primary	Renovation of 4 Classrooms	565,000	Renovation done and in use
4	Diraho Primary	Completing 2 Classrooms	500,000	Complete and in use
5	Uholo Primary	Renovation of a Classroom	1,000,000	Complete and in use
6	Ukela Primary	Construction of 6 doors pit latrine	700,000	Complete and in use
7	Bar Ndege Primary	Completion of 2 Classrooms	600,000	Complete and in use
8	Ugenya MTC	Construction Work	5,736,034	Not complete but in use
9	Ugenya Forestry College	Construction of two Classrooms and Administration Block	14,000,000	Project has stalled
10	Anyiko Special school	Construction of a Workshop	700,000	Land purchased
11	Sega Township Primary	Renovation of 3 Classrooms and an Office	1,000,000	Complete and in use
12	Mathiwa Primary	Roofing of Administration Block	500,000	Complete and in use
13	St. Joseph Ochiel Primary	Renovation of 2 Classrooms	1,500,000	Two classrooms done. Two floors had developed cracks
14	Nzoia Primary	Renovation of Classrooms	700,000	Complete and in use
15	Ukwala Secondary	Water drilling	900,000	Complete and in use

16	Kagoya Secondary	Construction of a Classroom	750,000	Complete and in use
17	Sihay Secondary	Laboratory Improvement	1,000,000	Complete but works appear sub-standard
18	Siranga junction AP Post	Construction of Office	570,000	Project not started
19	Sega water project	Bore-hole, pump and tank	2,000,000	Only works worth Kshs.1,246,875 done
20	Ugenya MTC	Water Project	984,650	Works destroyed by winds
Total			35,640,684	

5. Failure to Submit Expenditure Returns

Included under other grants and other payments balance of Kshs.50,714,772 is Kshs.2,987,000 disbursed to Ugenya environment project management committee for environmental activities. However, expenditure returns availed for audit accounted for expenditures totaling Kshs.1,448,500 only leaving a balance of Kshs.1,538,500 unaccounted for.

Consequently, the regularity of Kshs. 1,538,500 on environmental activities for the year ended 30 June 2017 cannot be confirmed.

6. Roads Expenditure

Included in other grants and transfers balance of Kshs. 50,714,771 is Kshs.2,672,173 paid to Ugenya Roads Project Management Committee (PMC) for spot gravelling of Got Nanga-Uhuru-Bar Road and Kshs.3,000,000 to Ukwala Stadium Project Management Committee . However, the roads were funded and constructed by Kenya Rural Roads Authority (KERRA). The management explained that the funds were re-allocated to Ugenya Forestry College but there was no evidence showing that the Constituency Development Fund Board approved the re-allocation. A visit to the stadium in the month of August 2018 revealed that only fencing of the field was done.

Consequently, the regularity of the expenditure of Kshs.5,672,173 for the year ended 30 June 2017 cannot be confirmed.

7. Payments to Ugenya Forestry College

Included in transfers to other government entities balance of Kshs.47,022,208 is Kshs.9,700,000 under transfers to tertiary institutions disbursed to Ugenya Forestry College in the year under review for construction of eight (8) class rooms and an administration block. Site verification in the month of July 2018 revealed that only three classrooms had been constructed to ring beam level while construction of the

administration block had not commenced. Further, bills of quantities, building plans and certificate of works done were not availed for audit review.

Consequently, the propriety of expenditure incurred from grants totaling Kshs.9,700,000 disbursed to the college during the year under review cannot be confirmed.

8. Water Project at Ugenya Medical Training College (MTC)

Included under other grants and transfers balance of Kshs.50,714,772 is Kshs.984,650 under transfers to tertiary institutions for completion of a water project at the Ugenya Medical Training College. The works comprised of pump installation Kshs.290,550 and Kshs.694,100 for tower construction and tank installation. However, a site visit on 30 June 2018 established that the tower and tank installed were destroyed by strong winds as a result of the weak foundation and steel metal used to secure the works to the ground.

Consequently, value for money was not attained on the expenditure of Kshs.694,100 incurred during the year ended 30 June 2017.

Management's Responsibility 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 is aware of the intention to liquidate the Fund or have its operations cease.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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.

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

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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 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 Funds' 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 offering 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 offering 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 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

05 November 2018