

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Borabu Constituency set out on pages 5 to 27, 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, 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 - Borabu 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 National Government Constituency Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for matters highlighted in the Other Matter section of my report based on the procedures performed, I confirm that, nothing 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

#### Unsupported and Omitted Expenditures

Included in the use of goods and services balance of Kshs.14,039,148 reflected in the statement of receipts and payments for the year under review is a sum of Kshs.3,897,381 being committee allowances of Kshs.2,672,300 and purchase of goods of Kshs.1,225,081 that were not supported with relevant documentation and information such as dates of meetings held, work tickets of vehicles used during monitoring and evaluation and store records.

Also included in the use of goods and services expenditure balance of Kshs.14,039,148 is expenditure amounting to Kshs.2,863,000 which was however not included in the Fund's ledger:

Payee	Date	Details	Amount Ksh
Edwin Lecha	15 September 16	Committee allowances	400,000

„	4 August 2016	M&E Allowances	353,20
Fund Account Manager	22 September 2016	„	393,00
Keroka Highway Service Station	27 July 2016	Administration Expenses	399,36
Edwin Lecha	3 November 2016	NG-CDC Allowances & Office Expenses	518,00
	29 November 2016	salaries	90,22
	28 February 2017	Contribution to NSSF	7,35
<b>Total</b>			<b>2,863,00</b>

No plausible explanation has been provided by management for the omission. In view of these discrepancies, the accuracy of the balance of Kshs.14,039,148 under use of goods and services 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 - Borabu 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 Key Audit Matters to communicate in my report.

### Other Matter

#### 1. Budgetary Controls and Performance

The Fund's revenue was budgeted at Kshs.140,976,494 but actual receipts amounted to Kshs.110,028,219 resulting in under-collection of Kshs.30,948,275 equivalent to 32% of the revenue expected. Further, the Fund spent a total Kshs.109,890,797 against a budget of Kshs.140,976,494 resulting in under-expenditure of Kshs.31,085,697 equivalent to 32% of the budget as tabulated below:

Receipt/Expenditure Item	Final Budget (Kshs)	Actual Comparable Basis (Kshs)	Budget Utilization Difference (Kshs)	% Utilization
	(a) Kshs.	(b) KShs.	c = (b-a) Kshs.	d = c/a %

<b>Receipts</b>				
Transfers from CDF board-AIEs' Received	140,961,494	110,013,219	30,948,275	78%
Other Receipts	15,000.00	15,000.00	0.00	100%
<b>Total Receipts</b>	<b>140,976,494</b>	<b>110,028,219</b>	<b>30,948,275</b>	<b>78%</b>
<b>Payment</b>				
Compensation of Employees	1,485,000	1,432,737	52,263	96%
Use of Goods and Services	12,390,120	14,039,148	-1,649,028	113%
Transfers to Other Government Units	50,382,347	41,360,000	9,022,347	82%
Other grants and Transfers	66,519,027	52,158,912	14,360,116	78%
Acquisition of Assets	8,500,000	200,000	8,300,000	2%
Other Payments	1,700,000	700,000	1,000,000	41%
<b>Total Payments</b>	<b>140,976,494</b>	<b>109,890,797</b>	<b>31,085,697</b>	<b>78%</b>

As a result of the under-collection of revenue and under-expenditure, all planned projects were not implemented and therefore the constituents could not access all public services planned for their use during the year under review.

## 2. Project Implementation

The Fund's approved plan for the year under review had envisaged implementation of a total of 75 projects valued at Kshs.65,401,724. However, twenty-four (24) projects valued at Kshs.12,900,000 were not started; thirty-seven (37) projects valued at Kshs.26,370,690 were ongoing while only fourteen (14) projects valued at Kshs.26,131,034 had been completed at the time of the audit as shown in the table below:

<b>Sector</b>	<b>Not Started</b>		<b>On-going</b>		<b>Completed</b>	
	<b>No</b>	<b>Value (Kshs)</b>	<b>No</b>	<b>Value (Kshs)</b>	<b>No</b>	<b>Value (Kshs)</b>
Administration	2	200,000	8	7,170,690	0	
Environment			16	1,000,000	0	
Education	12	5,200,000	10	14,200,000	11	25,081,034
Security	8	2,500,000	3	4,000,000	3	1,050,000
Health (Social Security Services)	1	1,000,000			0	
Office Infrastructure	1	4,000,000			0	
<b>Total</b>	<b>24</b>	<b>12,900,000</b>	<b>37</b>	<b>26,370,690</b>	<b>14</b>	<b>26,131,034</b>

The Fund, therefore, did not deliver planned services to the constituents and consequently did not achieve its development objectives for the year.

### 3. Emergency Projects

Included in the other grants and transfers of Kshs.52,158,912 are emergency project expenditures totaling Kshs.4,084,081 out of which, Kshs.1,951,000 was spent on committee allowances. The allowances were however not of emergency nature and therefore, the designation of the expenditure as such was irregular as it did not meet the conditions for emergencies set in Section 8(3) of National Government Constituencies Development Fund Act, 2015.

Further, the aggregate expenditure of Kshs.4,084,081 incurred on emergency projects was 6.6% of total expenditure for the year and was thus higher than the 5% threshold set by Section 8(1) of National Government Constituencies Development Fund (NGCDF) Act, 2015.

### 4. Expenditures Incurred on Devolved Functions

The Fund financed five (5) projects totaling Kshs.30,912,000 out of which three (3) namely water, health and agriculture on which expenditure totaling Kshs.7,800,000 was incurred were devolved functions for which the County Government is responsible:

<b>Description</b>	<b>Amount (Kshs)</b>
Water	4,550,000
Health	500,000
Agriculture /Food	<u>2,750,000</u>
<b>Totals</b>	<b>7,800,000</b>

Consequently, the Fund management breached the law governing use of the NGCDF funds.

### 5. Pending Bills

Note 11 to financial statements under other disclosures indicates pending account and staff payables of Kshs.5,150,000 and Kshs.122,511 respectively totaling Kshs.5,272,511 incurred but not paid in the year under review.

No explanation has been provided by management on why expenditure commitments were made in excess of the budget.

### 6. Compensation to Employees

Included in the balance of employee's compensation of Kshs.1,432,737 is an expenditure of Kshs.617,412 incurred without the Constituency Committee minutes as required by Section 12(5) of the NGCDF Act, 2015 which requires every payment or instruction for payments out of the Fund account to be made as prescribed in minutes of a resolution of a meeting of the Constituency Committee.

As a result, the management breached the law and therefore the expenditure is irregular.

*Report of the Auditor-General on the Financial Statements of National Government Constituencies Development Fund – Borabu Constituency for the Year ended 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 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 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.

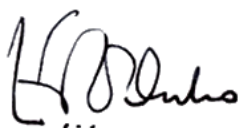
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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 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 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 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**

**27 September 2018**