

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - EMBAKASI EAST 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 - Embakasi East Constituency set out on pages 7 to 24, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flow 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 matter 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 - Embakasi 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 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, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, 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**

#### **1. Acquisition of Assets**

The statement of receipts and payments reflects expenditure on acquisition of assets of Kshs.1,999,100 during the year under review but the summary of fixed assets register at Annex 4 to the financial statements reflects a movement of Kshs.2,272,100 resulting in unexplained difference of Kshs. 273,000.

#### **2. Other Grants and Transfers**

As disclosed at Note 7 to the financial statements, the Fund spent Kshs. 37,353,500 on bursaries to secondary and tertiary institutions during the year under review. However, by the end of the financial year, cheques totalling Kshs. 19,365,250 had

not been presented for payment by the recipients. Further, un-presented bursary cheques totalling Kshs. 1,570,750 had gone stale as of 30 June, 2017.

The management did not explain why the cheques had not been presented even though they were issued to needy and deserving students. The management did not also explain why the stale cheques had not been reversed in the cashbook and re-issued. The un-presented bursary and stale cheques may be an indicator that the evaluation process and final disbursements were not done appropriately and fairly.

In the circumstances, the validity of the expenditure incurred on other grants and transfers cannot be confirmed.

### **3. Bank Balances**

The statement of financial assets reflects a bank balance of Kshs.9,757,012.69 as at 30 June 2017 and as disclosed at Note 10A to the financial statements. A review of bank reconciliation for June 2017 revealed un-presented cheques totalling Kshs.21,033,746 out of which cheques of Kshs.66,155 had gone stale as at 30 June 2017. In addition, the reconciliation statement reflects bursary cheques totalling Kshs.786,002 which appeared as payments in the bank statement but not recorded in the cashbook. It was not clear how the bank account was debited without corresponding entries in the cashbook.

Consequently, the accuracy of the bank balance of Kshs.9,757,012.69 cannot be confirmed.

### **4. Net Financial Position**

The statement of financial assets as at 30 June 2017 reflects net liabilities instead of net financial position of Kshs.9,757,012.28, being the difference between the brought forward fund balance of Kshs.14,102,938.28 and the deficit for the year of Kshs.4,345,926. No explanation has been provided for this anomaly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Embakasi East 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 qualified 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 Other Matter section, I have determined that there are no key audit matters to communicate in my report.

## **Other Matter**

### **1. Non-implementation of Projects**

A review of the project implementation status for the year under review indicates that projects worth Kshs.21,000,000 had not been implemented as at 30 June, 2017. The projects entailed purchase of school buses for Utawala Secondary School, Mihango Secondary School and Embakasi Garrison Secondary School. The management did not explain why the projects were not implemented as budgeted. Failure to implement projects in the stipulated time frame impacted negatively on delivery of services to the constituents of Embakasi East.

### **2. Budget and Budgetary Controls**

During the year under review, the Fund's budgeted expenditure amounted to Kshs.137,850,205.86. However, overall actual expenditure for the year amounted to Kshs.93,012,052 resulting in an under expenditure of Kshs.44,838,153.86 which is equivalent to or about 33% of the total budget. The under expenditure was mainly on transfers to other government units - Kshs.23,630,222 and other grants and transfers - Kshs.20,449,073.

Further, analysis of the budget against actual expenditure indicates that out of the development budget of Kshs.129,393,772, an amount of Kshs.85,314,259 was spent resulting in an under expenditure of Kshs.44,079,513, or a 34% shortfall. This implies low investment in development projects which impacted negatively on service delivery to the constituents.

In addition, the Fund budgeted to receive Kshs.143,850,206 in the year under review. However, actual receipts from the Board amounted to Kshs.102,769,065 resulting in a deficit of Kshs.41,081,141. The under-funding is an indication that approved programs could not be fully implemented.

### **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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable 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'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 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**

**8 October 2018**