

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GEM 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 - Gem Constituency set out on pages 1 to 48 which comprise the statement of financial assets as at 30 June 2017 and the statement of receipts and payments, statement of cash flows as at 30 June 2017 and summary statement of appropriation: recurrent and development 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 - Gem 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 Constituencies Development Fund Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters raised in the Other Matter section of my report, 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. Cash and Cash Equivalents**

The statement of assets as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.5,080,867. However, a review of the bank reconciliation statement as at 30 June 2017 revealed inclusion of stale cheques amounting to Kshs.1,232,849 which had not been reversed in the cash book.

No plausible explanation has been provide by management for the failure to reverse the cheques.

#### **2. Non-disclosure of Project Management Committee (PMC) Account Balances**

The management did not disclose PMC cash and bank balances as at 30 June 2017 in the financial statements as required.

Consequently, the management has not complied with the requirements of Public Sector Accounting Standard Board Reporting Template.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Gem 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 matters 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. Budget Analysis

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

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Performance (%)
Compensation of Employees	2,865,215	2,189,271	675,944	76
Use of Goods and Services	10,315,739	9,128,655	1,187,084	88
Transfers to Other Government Entities	46,060,165	43,980,000	2,080,165	95
Other Grants and Transfers	55,656,977	54,119,303	1,537,674	97
<b>Total</b>	<b>114,898,096</b>	<b>109,417,229</b>	<b>5,480,867</b>	<b>95</b>

Analysis of the budget against the actual balances revealed that the Fund underspent on four (4) items namely; compensation of employees, use of goods and services, transfer to other government entities and other grants and transfers. The total amount budgeted was Kshs.114,898,096 and total amount spent was Kshs.109,417,229 leading to under-expenditure of Kshs.5,480,867 and 95 % budget absorption rate. Because of the under-absorption, the Fund may not have achieved all its budgeted goals.

#### 3. Delayed Construction of Class Rooms

Included in transfers to other government units balance of Kshs.43,980,000 is Kshs.2,000,000 in respect of construction of three classrooms at Akala

Township Primary School. However, the project has delayed to commence despite disbursement of funds having been made on 16 February 2017.

#### **4. Emergency Expenditure**

Included in other grants and payments balance of Kshs.54,119,403 are expenditures totaling Kshs.8,220,000 incurred on emergency projects. However, supporting evidence revealed that expenditures totaling Kshs.2,900,000 was used for construction of classrooms, laboratory and a tank platform in selected secondary schools. However, the expenditures did not qualify as emergencies as provided for in Section 8(3) of the National Government Constituencies Development Fund Act, 2015

Consequently, the regularity of the expenditure totaling Kshs.2,900,000 spent as emergency expenditure in the year under review cannot be confirmed.

#### **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 it 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 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 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**

**08 November 2018**