

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KILIFI NORTH 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 – Kilifi North Constituency set out on pages 11 to 35, which comprise the statement of financial 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 - Kilifi North 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 matter described in the Basis for Qualified Opinion and Other Matter sections 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**

#### **Bank Balances**

The statement of financial assets reflects a bank balance of Kshs.10,525,909. However, bank reconciliation statement presented for audit review reflected unrepresented cheques amounting to Kshs.6,794,341, out of which Kshs.263,000 were stale and not reversed in cash book as at 30 June 2017. Further, bank charges of Kshs.1,319.95 were included in the bank reconciliation statement instead of being expensed in these financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kilifi North Constituency in accordance with ISSAI 30 on Code

of Ethics. I have fulfilled 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, are 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

### 1.0 Budgetary Controls and Performance

During the year under review, the Fund had budgeted to spend Kshs.171,546,260 on its various activities but actually spent Kshs.154,020,351, resulting in an under absorption of Kshs.17,525,909 or approximately 10% as summarized below:

Vote Item	Final Budget (Kshs)	Actual on Comparable Basis (Kshs)	Budget Under Utilization (Kshs)	Budget Over Utilization (Kshs)	Under Absorption %
Compensation of Employees	4,010,570	2,965,539.50	1,045,030.50		26%
Use of goods and services	14,611,007.15	10,621,361.45	3,989,645.70		27%
Transfers to Other Government Units	94,462,585.48	83,280,035.48	11,182,550		12%
Other grants and transfers	58,462,097.61	57,153,414.36	1,308,683.25		2%
<b>Totals</b>	<b>171,546,260</b>	<b>154,020,350.79</b>	<b>17,525,909.45</b>		<b>10%</b>

The underutilization of the budget implies development projects earmarked for implementation were not undertaken which affects delivery of goods and services to the citizens of the Constituency.

### 2.0 Project Implementation

The project status report availed for audit review indicated that a total of Kshs.81,896,552 was allocated for forty-eight (48) projects. Further, out of the forty-eight (48) projects, eight (8) projects with total allocation of Kshs. 7,371,690 were on-going while two (2) projects with an allocation of Kshs 8,000,000 had not started as detailed below:

Project Name	Projects Description /Activities	Allocation Kshs	Current Status

	<b>Project Name</b>	<b>Projects Description /Activities</b>	<b>Allocation Kshs</b>	<b>Current Status</b>
1	Employee salary	Payment of staff salaries and gratuity	2,200,000.00	Ongoing
2	Goods and services	Purchase of fuel, repair and maintenance, printing, stationery, office refreshments, telephone, travel and subsistence	1,202,793.10	Ongoing
3	Purchase of furniture / equipment	Purchase of office furniture and equipment (8 No. file cabinets @ 43,750.00 & 1 No. Kyocera Task Alfa 2200 photocopier @ 150,000.00)	500,000.00	Ongoing
4	Committee expenses	Payment of committee sitting allowances, transport and conference costs	1,000,000.00	Ongoing
5	NSSF	Payment of NSSF Deductions	12,000.00	Ongoing
6	Goods and services	Purchase of fuel, repair and maintenance, printing, stationery, office refreshments, telephone, travel and subsistence	1,000,000.00	Ongoing
7	Committee expenses	Payment of committee sitting allowances, transport and conference costs	756,896.55	Ongoing
8	CDFC / PMC Capacity building	Training CDFCs / PMCs on CDF related issues	700,000.00	Ongoing
	<b>SUB-TOTAL</b>	<b>On-going Projects</b>	<b>7,371,690</b>	
9	Gede Primary School	Purchase of a 32 seater school bus	6,500,000.00	Not started
10	Kilifi North Mitihani Centre	Complete construction of an examination centre (Doors, windows, painting & decoration)	1,500,000.00	Not started
	<b>SUB-TOTAL</b>	<b>Not Started Projects</b>	<b>8,000,000.00</b>	
	<b>GRAND-TOTAL</b>		<b>15,371,690</b>	

From the above analysis, the budget was not fully implemented as envisaged. The slow and lack of completion of projects may impact negatively on delivery of goods and service to the residents of Kilifi North Constituency.

### 3.0. Project Inspections

During the year under review, four (4) projects with a total allocation of Kshs.10,857,509 were visited for verification on 9 May 2018 and the following state of affairs of the specific projects were observed: -

	Name	Cost (Kshs.)	Project	Observations
1	Watamu Primary School PMC	1,000,000	Renovation of classrooms	verification confirmed that 4 classrooms were renovated. It was however observed that there were f cracks in the verandah and floors of the classrooms, some door hinges had been removed and some window grills were loose an indication of poor workmanship.
2	Gede Dispensary PMC	3,000,000	Renovation of mortuary	Physical verification of the project revealed that the PMC reallocated the funds to fencing of staff quarters, re-roofing/ceiling and painting of the administration/outpatient block, fitting of solar water heater system for the maternity block and purchase of water tank. There was no approval from the NG-CDF Board to reallocate the funds to other activities.
3	Ngala Memorial Girls Secondary	2,787,509	Renovation of a burnt dormitory	Physical verification of the project revealed that the PMC reallocated the funds to renovation of five classrooms without approval from the Board, which included Kshs 787,509.00 disbursed for extra works. The project was complete and was being used.
4	Deputy County Commissioner's office, Malindi Sub County PMC	3,800,000	Complete the construction of a social hall in Watamu - plastering, paint work, doors & windows (1,800,000.00), Purchas of Furniture & fittings for the social hall (1,000,000.00) & Fencing of social hall - 38m x 28m (1,000,000.00)	The project is complete and is in use though fencing not completed. The management should not have paid the whole amount since fencing work costing Kshs.1,000,000 had not been completed..
	<b>Total</b>	<b>10,587,509</b>		

Lack of proper supervision by the CDF Committee has led to poor workmanship to the detriment of the welfare the Kilifi North constituents. There is need, therefore, to ensure that all projects are properly supervised to ensure satisfactory completion of the projects.

### **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 to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either 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 National Government Constituencies Development Fund Company'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 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 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 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**

**12 July 2018**