

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUI CENTRAL 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 the National Government Constituencies Development Fund- Kitui Central Constituency set out on pages 5 to 21, 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 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- Kitui Central Constituency as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the 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, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, 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**

#### **Incomplete Project: Kiluma Primary School**

During the year under review, the Fund transferred Kshs.1,000,000 to Kiluma Primary School for rehabilitation and renovation of eight (8) classrooms. However, a physical verification done on 9 May 2018 revealed that various works comprising of fixing and painting of fascial board, fixing of five (5) windows, mortar skirting from outside and fixing of bill board which were to be done at a total cost of Kshs.165,580 had not been done.

Consequently, the propriety and value for money of the expenditure amounting to Kshs.165,580 could not 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 – Kitui Central 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 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 Budget and Budgetary Controls

During the year under review, the Constituency approved a budget of Kshs.122,188,645 composed of Kshs.81,896,552 for the year under review and Kshs.40,292,093 brought forward from the previous year. However, out of the Kshs.122,188,645 approved budget, the Fund received only Kshs.83,096,552 from the Board leading to a revenue shortfall of Kshs.39,092,093.

Further, out of the total budget of Kshs.122,188,645, only Kshs.121,555,670 (99%) was utilized to fund projects in various sectors within the Constituency. An amount of Kshs.632,975 budgeted to be spent during the financial year ended 30 June 2017 was therefore not spent as follows;

	Original Budget (Kshs.)	Adjustments (Kshs.)	Final Budget (Kshs.)	Actual on Comparable Basis (Kshs.)	Variance (Kshs.)	Performance
<b>Receipts</b>						
Transfers from CDF Board	81,896,552	40,292,093	122,188,645	83,096,552	39,092,093	72
<b>Payments</b>						
<b>Total Receipts</b>	<b>81,896,552</b>	<b>40,292,093</b>	<b>122,188,645</b>	<b>83,096,552</b>	<b>39,092,093</b>	
Compensation of Employees	2,011,000	1,045,810	3,056,810	2,841,625	215,185	93
Use of goods and services	5,148,527	3,176,971	8,865,498	8,447,709	417,789	95
Transfers to Other Government Units	27,605,172	17,800,000	45,405,172	45,405,172	0	100
Other grants and transfers	46,998,276	17,729,312	64,727,588	64,727,588	0	100
Acquisition of Assets	133,576			133,576	0	100

<b>Total Payments</b>	<b>81,896,552</b>	<b>40,292,093</b>	<b>122,188,645</b>	<b>121,555,670</b>	<b>632,974</b>	<b>74</b>
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In addition, although the statement of receipts and payments shows that the Fund spent Kshs.133,576 on acquisition of assets during the year, the final budget of acquisition of assets was excluded in the summary statement of appropriation.

In the circumstances, the residents of Kitui Central Constituency did not obtain promised and expected services equivalent to Kshs.632,975 being the budgeted but not spent funds as at 30 June 2017.

## 2.0 Project Implementation and Status

During the year under review, the approved budget for development projects which totaled Kshs.74,804,172 was apportioned among various sectors in the Constituency namely; primary schools, secondary schools, security, and emergency projects. However out of 93 projects that were budgeted to be undertaken during the year, 90 projects with a total of Kshs.71,304,172 were completed, while 3 projects totaling Kshs.4,700,000 were still ongoing as at 30 June 2017. The total expenditure spent on the projects as at 30 June 2017 was Kshs.69,604,172 as analyzed below.

<b>Sector</b>	<b>Status</b>	<b>Amount Allocated (Kshs.)</b>	<b>Amount Disbursed (Kshs.)</b>	<b>No.of Projects</b>
<b>Education Projects</b>	Complete	40,705,172	40,705,172	43
	Ongoing	4,700,000	1,500,000	3
<b>Security Projects</b>	Complete	6,300,000	6,300,000	9
	Ongoing	-	-	
<b>Electricity Projects</b>	Complete	7,000,000	7,000,000	7
	Ongoing	-	-	
<b>Water</b>	Complete	9,700,000	9,700,000	4
	Ongoing	-	-	
<b>Emergency</b>	Complete	4,399,000	4,399,000	27
	Ongoing	-	-	
		<b>72,804,172</b>	<b>69,604,172</b>	<b>93</b>

In view of the above, the Fund did not complete implementing 3 projects worth Kshs.4,700,000 which were included in the budget for the year under review. As a result, the residents of Kitui Central Constituency did not get promised and expected services equivalent to the budgeted but not completed projects as at 30 June 2017 totaling Kshs.4,700,000.

## 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 going concern basis of accounting unless the management either intends to cease 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 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 consolidated/ 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 fund's 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**

**18 July 2018**