

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

---

## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund- Kitui East Constituency set out on pages 5 to 19, which comprise 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 East 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

#### 1.0 Unsupported Security Projects Expenditure

Note 5 to the financial statements reflects Kshs.39,455,102 in respect to other payments which included Kshs.7,500,000 in respect to security projects executed during the year under review. However, although the projects comprised of construction of residential houses in six Administration Police lines, the respective land ownership and sale agreement documents were not made available for audit verification. Further, building plans, Structural and Architectural drawings and the environmental clearance letters from National Environmental Management Authority (NEMA) including status report as at 30 June 2017 were not made available for audit verification.

In the circumstances, the security, propriety and value for money of Kshs.7,500,000 expenditure as at 30 June 2017 could not be confirmed.

#### 2.0 Irregular Implementation of Incomplete Classroom Project: Ithangathi Secondary School

During the year under review, the Fund transferred Kshs.1,000,000 to Ithangathi Secondary School for the construction of two classrooms at a cost of Kshs.1,545,140. However, although the total project cost was Kshs.1,545,140, only Kshs.1,000,000 was

transferred to the Project Management Committee (PMC) and no documents were made available to show how the balance of Kshs.545,140 was to be funded for the project to be completed. This under funding raised a high possibility of the project stalling midway. In addition, a physical verification done on 19 April 2018 revealed that various works comprising of painting of doors and windows, window seal and glazing of windows, floor and wall plastering and keying which were to be done at a cost of Kshs.114,720 had not been done

Consequently, the propriety and value for money of Kshs.1,000,000 expenditure as at 30 June 2017 could not be confirmed.

### **3.0 Irregular Implementation and Incomplete Classroom Project: Makuka Secondary School**

During the year under review, the Fund transferred Kshs.1,000,000 to Makuka Secondary School for the construction of two classrooms at a total cost of Kshs.2,155,760. However, although the total project cost was Kshs.2,155,750, only Kshs.1,000,000 was transferred to the PMC and no documents were made available to show how the balance of Kshs.1,155,760 was to be funded for the project to be completed. This under funding raised the high possibility of the project stalling midway.

In addition a physical verification done on 19 April 2018 revealed that various works comprising of windows, finishings, painting and decoration which were to be done at a cost of Kshs.239,050 as per bill of quantity had not been done .

Consequently, the propriety and value for money of the Kshs.1,000,000 expenditure as at 30 June 2017 could not be confirmed.

### **4.0 Poor Workmanship at Hon. Kiema Primary School**

During the year under review, the Fund transferred Kshs. 600,000 to Hon. Kiema Primary School for construction of a classroom. However, a physical verification done on 19 April 2018 revealed poor workmanship as the floor of the classroom was wearing off and the wall finishing/ Painting was not well done.

In the circumstance, the propriety and value for money of the Kshs. 600,000 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund – Kitui East 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 section, 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.155,239,164 comprising of Kshs.81,896,552 for the year under review and Kshs.73,342,612 brought forward from the previous year. However, the Fund received Kshs.111,344,066 from the National Government Constituency Development Fund Board leading to a revenue shortfall of Kshs. 43,895,098 being funds not received from the Board.

Further, out of the total budget of Kshs. 155,239,164, only Kshs. 114,528,327 (74%) was utilized to fund projects in various sectors within the Constituency resulting in an under-expenditure of Kshs. 40,710,837 as follows;

Item	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	73,342,612	155,239,164	111,344,065	43,895,098	72
<b>Total Receipts</b>	<b>81,896,552</b>	<b>73,342,612</b>	<b>155,239,164</b>	<b>111,344,065</b>	<b>43,895,098</b>	
<b>PAYMENTS</b>						
Compensation of Employees	3,500,000	3,700,000.	7,200,000	4,357,618.	2,842,382.	61
Use of goods and services	3,849,089	4,447,206	8,296,295	5,517,316	2,778,979	67
Transfers to Other Government Units	39,400,000	47,700,000	87,100,000	62,200,000	24,900,000	71
Other grants and transfers	35,125,863	9,507,915	44,633,778	39,455,102	5,178,676	88
Social Security Benefits	21,600	10,800.	32,400	21,600.	10,800.00	67
Acquisition of Assets	-	7,976,691	7,976,691	2,976,691	5,000,000	37
<b>TOTALS PAYMENTS</b>	<b>81,896,552</b>	<b>73,342,612</b>	<b>155,239,164</b>	<b>114,528,327</b>	<b>40,710,837</b>	<b>74</b>

In the circumstances, the residents of Manyatta Constituency did not obtain promised and expected services equivalent to Kshs.40,710,837 being the budgeted but not spent funds as at 30 June 2017.

### 2.0 Project Implementation Status

The approved budget for development projects was apportioned among various sectors in the Constituency namely; primary schools, secondary schools, security, sports,

environment, emergency projects and water projects. However out of 167 projects that were budgeted to be undertaken during the year, 106 projects totaling to Kshs.69,181,093 were completed, while 15 projects totaling to Kshs.10,500,000 were still ongoing and 46 projects had not started despite a total amount of Kshs.4,100,000 having been disbursed out of the total allocation of Kshs.37,400,000 by the end of the financial year 2016/2017 as analyzed below:

<b>KITUI EAST NG-CDF PROJECT IMPLEMENTATION STATUS ANALYSIS FY 2016/17</b>				
SECTOR	PROJECT STATUS	AMOUNT ALLOCATED(KSHS)	AMOUNT DISBURSED(KSHS)	NO. OF PROJECTS
EDUCATION	COMPLETED	27,249,000.00	48,100,000.00	68
	ONGOING	10,500,000.00	10,500,000.00	15
	NOT STARTED	25,400,000.00	3,600,000.00	39
	<b>SUB TOTALS</b>	<b>63,149,000.00</b>	<b>62,200,000.00</b>	<b>122</b>
BURSARY	COMPLETED	20,031,000.00	20,031,000.00	2
	ONGOING	0	0	0
	NOT STARTED	0	0	0
	<b>SUB TOTALS</b>	<b>20,031,000.00</b>	<b>20,031,000.00</b>	<b>2</b>
WATER	COMPLETED	200,000.00	200,000.00	1
	ONGOING	0	0	0
	NOT STARTED	0	0	0
	<b>SUB TOTALS</b>	<b>200,000.00</b>	<b>200,000.00</b>	<b>1</b>
ROADS	COMPLETED	3,200,000.00	3,200,000.00	3
	ONGOING	0	0	0
	NOT STARTED	0	0	0
	<b>SUB TOTALS</b>	<b>3,200,000.00</b>	<b>3,200,000.00</b>	<b>3</b>
SPORTS	COMPLETED	2,507,915.00	2,507,915.00	1
	ONGOING	0	0	0
	NOT STARTED	0	0	0
	<b>SUB TOTALS</b>	<b>2,507,915.00</b>	<b>2,507,915.00</b>	<b>1</b>
SECURITY	COMPLETED	7,000,000.00	7,000,000.00	8
	ONGOING	0	0	
	NOT STARTED	7,000,000.00	500,000.00	6
	<b>SUB TOTALS</b>	<b>14,000,000.00</b>	<b>7,500,000.00</b>	<b>14</b>
EMERGENCY	COMPLETED	6,016,487.00	6,016,487.00	8
	ONGOING	0	0	0
	NOT STARTED	0	0	0
	<b>SUB TOTALS</b>	<b>6,016,487.00</b>	<b>6,016,487.00</b>	<b>8</b>
ACQUISITION OF ASSETS	COMPLETED	2,976,691.00	2,976,691.00	15
	ONGOING	0	0	0
	NOT STARTED	5,000,000.00	-	1
	<b>SUB TOTALS</b>	<b>7,976,691.00</b>	<b>2,976,691.00</b>	<b>16</b>
	<b>GRAND TOTALS</b>	<b>117,081,093.00</b>	<b>104,632,093.00</b>	<b>167</b>

In view of the above, the Fund did not implement 46 projects worth Kshs.37,400,000 which were included in the budget for the year under review. As a result, the residents of Kitui East constituency did not get promised and expected services equivalent to the budgeted but not implemented projects as at 30 June 2016 totaling to Kshs.37,400,000.

### **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 either intends to cease operations.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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.

### **Responsibilities of Management and Those Charged With Governance for 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**

**13 July 2018**