

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATUNGU 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 - Matungu Constituency set out on pages 5 to 29, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 - Matungu Constituency as at 30 June 2017, and of its performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standard (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 described in the Basis for Qualified Opinion section, I confirm that 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. Transfer to Other Government Entities**

##### **1.1 Purchase of Land for Matungu Technical Training Institute**

The statement of receipts and payments as detailed in Note 4 on transfers to other Government entities reflects an expenditure of Kshs.5,000,000 on transfers to tertiary institutions. Included in this amount is Kshs.4,250,000 spent on account of purchase of land for Matungu Technical Training Institute. According to the letter of agreement dated 22 September 2016, the Fund management entered into a contract with a vendor to buy a piece of land measuring 3.43 hectares at a cost of Ksh.4,250,000 for the Institute. At the time of audit, the management had paid Kshs.4,250,000 for purchase of land. However, it was not clear how the survey, legal and valuation fees costing Kshs.750,000 in respect of the land transaction were procured.

##### **1.2 Koyonzo Boys Secondary School**

The statement of receipts and payments as detailed in Note 4 on transfers to other Government entities reflects an expenditure of Kshs.43,800,000 on transfers to secondary schools. Included in this amount is Kshs.1,900,000 spent on construction of teachers houses and ablution block at Koyonzo Boys Secondary School.

However, it was noted that the project management committee diverted the funds from construction of ablution block to construction of student's dormitory without seeking approval or concurrence with the CDF Board. Further, it was noted that roofing of the dormitory constructed was incomplete and workmanship was also very poor.

### **1.3 Construction of Modern Classrooms**

The statement of receipts and payments as detailed in Note 4 on transfers to other government entities reflects an expenditure of Kshs.25,000,000 on transfers to primary schools. Included in this amount is Kshs.2,300,000 spent on account of construction of new modern classrooms at Makunda and Lung'anyiro primary schools at Kshs.900,000 and Kshs.1,600,000 respectively. However, the following anomalies were noted in the Lung'anyiro Primary School project;

- i. The Project Management Committee (PMC) irregularly diverted funds to renovation of school hall/workshop instead of construction of modern one classroom without prior approval of the NG-CDF Board.
- ii. The contractor abandoned the site and certain works remained unfinished e.g. painting, roofing partly done.
- iii. The floor and walls had started cracking an indication of poor workmanship.

In the circumstances, it was not possible to ascertain propriety and completeness of the expenditures incurred on the transfer of funds to other Government entities amounting to Kshs73,800,000.

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

### **2.1 Matungu SDA Secondary School**

The Project Management Committee of Matungu SDA Secondary. School received Kshs.1,200,000 vide payment voucher No.072 dated 19 October 2016 for construction of 3 classrooms from emergency fund which is under other grants and transfers. However, the following anomalies were noted;

- i. From the project file availed, the last information on the project file is for November 2015.
- ii. BQs for the project were not availed, hence it was not clear which works were to be carried out.
- iii. There were no expenditure returns for the project of construction of 3 classrooms.

- iv. A visit to the school revealed that the school management did not maintain any records concerning the project.
- v. The BQs and expenditure returns of the 3 classrooms constructed were not availed, hence the specifications and expenditure for the project could not be determined.

In the circumstances, it was not possible to ascertain the propriety of expenditure of Kshs.1,200,000 under emergency funds.

## **2.2 Bulimbo Primary School**

Included in other grants and transfers was Kshs.500,000 from emergency fund which was disbursed to the Project Management Committee of Bulimbo Primary School vide voucher No.079 dated 1 November 2016 for construction of six door pit latrine. However, the following anomalies were noted;

- i. From the project file availed, the last information on the project file was for 2015 and there is no information on file concerning the project of construction of six door pit latrine in respect of 2016/17 financial year.
- ii. BQs for the project were not availed, hence it was not clear which works were to be carried out.
- iii. Physical verification revealed that no pit latrines were constructed instead the funds were spent on renovation of 5 classrooms.
- iv. There was no authority/prior approval from NG-CDFC to re-allocate the funds.
- v. There were no expenditure returns for the construction of the six door pit latrines.

In the circumstances, it was not possible to ascertain propriety of the other grants and transfers figure of Kshs.28,300,009 incurred during the year under review.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) I am independent of the National Government Constituencies Development Fund - Matungu 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 judgments, are of most significance in the audit of the financial statements of the year under review. 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 for the Financial Year 2016/ 2017**

During the financial 2016/2017, the Fund had approved budget of Kshs.81,896,552. They received Kshs.110,956,093 from NG-CDF Board resulting to overfunding of Kshs.29,059,541. No explanation was given for such overfunding. In addition, the Fund had a balance brought forward from 2015/16 of Kshs.62,24,416. Out of total receipts, the management of Matungu NG-CDF managed to spend only Kshs.111,847,674 representing 77.5% leading to under-absorption of funds.

### **2. Delay in Projects Implementation**

Detailed analysis of the Projects Implementation Status of the Fund revealed that the management had an approved plan to implement four hundred and twenty five (425) projects between financial year 2013/2014 to 2016/17, valued at Kshs.401,034,410. However, thirty seven (37) projects valued at Kshs.34,400,000 had not started, forty four (44) valued at Kshs.61,864,808 were still ongoing and three hundred and forty four (344) valued at Kshs.304,769,602.26 had been completed.

In view of the foregoing, delayed implementation of some projects may have to residents of Matungu Constituency not been able to access the planned and budgeted development facilities and services.

## **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 liquidate the Fund or to close 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 Responsibility 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 judgment 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 consolidated and separate 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**

**20 September 2018**