

**REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT  
CONSTITUENCIES DEVELOPMENT FUND-NORTH MUGIRANGO  
CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017**

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REPORT ON THE FINANCIAL STATEMENTS

**Adverse Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund – North Mugirango Constituency set out on pages 7 to 21, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund – North Mugirango 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 do not 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, I confirm that, public money has not been applied lawfully and in an effective way.

**Basis for Adverse Opinion**

**1. Inaccuracies of Financial Statements**

**1.1 Non Preparation of General Ledger**

The Fund did not prepare ledger to support all the balances reflected in the financial statements as at 30 June 2017. Consequently, it was not possible to confirm the accuracy and completeness of figures reflected in the financial statements.

**1.2 Variances of Figures in the Financial Statements**

Note 5 to the financial statements as at 30 June 2017 reflects figures for transfer to primary and secondary schools totalling Kshs.37,708,517 which differs with the supporting schedules balances of Kshs.36,974,138 resulting to an unexplained variance of Kshs.734,379 as indicated in the table below;

<b>Item</b>	<b>Figure as per Financial Statement  Kshs.</b>	<b>Figure as per availed supporting schedule  Kshs.</b>	<b>Variance  Kshs.</b>
Transfer to primary schools	15,850,000	16,850,000	1,000,000
Transfer to secondary schools	21,858,517	20,124,138	1,734,379
<b>Total</b>	<b>37,708,517</b>	<b>36,974,138</b>	<b>734,379</b>

## **2. Outstanding Imprests**

The statement of financial assets and as disclosed under Note 9 to the financial statements reflects nil outstanding imprests. However, imprest records examined revealed that a total of Kshs.9,963,000 imprests was issued to one officer during the year under review, out of which Kshs.9,542,440 was accounted for leaving a balance of Kshs.571,160 as outstanding as at 30 June 2017. No reason has however been provided for failure to have the imprests surrendered or accounted for on the due dates.

## **3. Transfer to Other Government Entities.**

### **3.1 Unaccounted for Payments**

The statement of receipts and payments reflects a figure of Kshs.48,984,517 in respect of transfers to other government entities which include an amount of Kshs.11,276,000 that was not supported by documentary evidence such as schedules of tertiary institutions that benefitted, payment vouchers, project proposals and Constituencies Development Fund Committee (CDFC) minutes approving the payment which were not made available for audit review to confirm nature of the expenditure.

Consequently, propriety of the payments of Kshs.11,276,000 could not be confirmed.

### **3.2 Unapproved Funding**

Included in transfer to other government entities figure of Kshs.48,984,517 is Kshs.37,708,517 in respect to transfers to primary and secondary schools which includes Kshs.8,826,000 that were disbursed to National Government Constituencies Development Fund (NG-CDF) Project Management Committee (PMC) as legal fees and for three (3) primary and two (2) secondary schools projects which were however not approved by the Board contrary to requirements of the NG-CDF Act, 2015 Section 16(C).The Fund was therefore in breach of the

law. In the circumstances, the regularity of the expenditure amounting to Kshs.8,826,000 could not be ascertained.

### 3.3 Project Inspection

Included in the transfers to other Government units and as disclosed in Note 5 to the financial statements is an amount of Kshs.7,000,000 disbursed to two (2) primary schools and one (1) secondary school which revealed unsatisfactory issues as indicated below:

<b>Project Name</b>	<b>Project Activity</b>	<b>Disbursement Kshs.</b>	<b>Observation</b>
Nyamonge Primary School	Construction of 5 classrooms	2,000,000	Only one classroom out of five constructed
Okano Primary School	Construction of 1 classroom, Administration Block and Library	3,000,000	No work had started
Gitwebe Secondary School	Construction of two classrooms	2,000,000	Construction of classroom not completed.

It was observed that the Project Management Committee (PMC) had bank balances as at 30 June 2017 for the three (3) projects: Nyamonge Primary, Okaro Primary and Getweba Secondary School amounting to kshs.0.60, Kshs.116 and Kshs.25 respectively. However, it was not clear how the Kshs.7,000,000 was applied and how the PMCs intend to complete the remaining works without budgetary provisioning from the CDF Board.

In the circumstances, the propriety, completeness and accuracy of the figure of Kshs.48,984,517 in respect to transfer to other government entities could not be ascertained.

## 4. Wasteful Expenditure

### 4.1 Construction of Residential Houses at Nyamusi Administration Police Camp.

The statement of receipts and payments reflects an amount of Kshs.58,878,666 in respect of other grants and other transfers. Included in this figure is an amount of Kshs.1.5 Million disbursed to Nyamusi Project Management Committee (PMC) for construction of Administration Police (AP) residential houses, completion of commissioner's office, AP latrine and public dais. However, physical verification carried out during the month of May 2018 revealed that funds were used to renovate private residential houses at Kebobora Location

where the Administration Police officers are currently housed. It was therefore not clear why public funds were used to develop private property without approval from the Board as required by Section 16 (C) of the NGCDF Act, 2015.

Further, there was no contractual documents availed for audit to establish how an agreement was made with the owner of the houses occupied currently with police officers. In addition, no expenditure returns were availed for audit review.

Consequently, the propriety of the expenditure of Kshs.1,500,000 could not be ascertained

#### **4.2 Emergency Project**

Included in the other grants and transfers figure of Kshs.58,878,666 is Kshs.500,000 allocated to Gitwebe Secondary School for the construction of 2.No pit latrines for both boys and girls under emergency vote.

However, physical verification carried out on 16 May 2018 revealed the following un satisfactory issues;

- i. Only one pit latrine was dug with 4No. door.
- ii. The doors were ordinary iron sheets doors which could not amount to Kshs.5000 as per the budget BQ.
- iii. The walls had not been plastered and generally poor workmanship.
- iv. No expenditure returns were made available for audit review.
- v. The project had not been labelled thus difficult to know the funding agency.

Consequently, the value for money and propriety of the expenditure of Kshs.500,000 could not be ascertained.

#### **4.3 Devolved Functions**

Included in other grants and other transfers figure of kshs.58,878,666 is a balance of Kshs.12,969,597 in respect to roads which includes Kshs.1,537,931 for the construction of two (2) roads as detailed below:

<b>Description</b>	<b>Contractor</b>	<b>Amount</b>
Nyamonge-Otondo Road	Amas General nstruction&Suppliers	1,137,931
Proposed Bisembe Bridge	Honet Company Limited	400,000

Total		<b>1,537,931</b>
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However, the roads are under devolved function to the County Government and no authority and approval was given by the Board for the two (2) projects as required the NG-CDF Act, 2015 Section 24(a). Further, it was also noted that there was no signage to mark the road done as a result it was not possible to establish who funded the work. No explanation was provided for this anomaly. Consequently, the Fund therefore breached the Law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – North Mugirango 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 adverse 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 adverse Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

### **Other Matter**

#### **1. Budgetary Controls and Performance**

The Fund revenue was budgeted at Kshs.120,111,551 against the actual receipt of Kshs.119,311,551 representing an overall under collection of Kshs.800,000 (1%). Further, the Fund spent a total Kshs.119,242,710 against a budget of Kshs.120,111,551 representing under expenditure of Kshs.868,841 (1%) as tabulated below:

<b>Receipt/Expenditure Item</b>	<b>Final Budget (Kshs)</b>	<b>Actual Comparable Basis (Kshs)</b>	<b>Budget Utilization Difference (Kshs)</b>	<b>% Utilization</b>
	<b>(a)</b>	<b>(b)</b>	<b>c = (b-a)</b>	<b>d = c/a %</b>
<b>Receipts</b>				

Transfers from CDF board-AIEs' Received	120,111,551	119,311,551	800,000	99%
<b>Total Receipts</b>	<b>120,111,551</b>	<b>119,311,551</b>	<b>800,000</b>	99%
<b>Payment</b>				
Compensation of Employees	1,188,138	1,150,473	37,665	97%
Use of goods and services	9,591,893	9,519,054	72,839	99%
Transfers to Other Government Units	48,984,517	48,984,517	-	100%
Other grants and transfers	59,637,003	58,878,666	758,337	99%
Acquisition of Assets	710,000	710,000	-	100%
<b>Total Payments</b>	<b>120,111,551</b>	<b>119,242,710</b>	<b>868,841</b>	99%

## 2. Project Implementation Status

The Fund management had an approved budget to implement a total of 75 projects valued at Kshs.73,014,265. Further, analysis indicates that two (2) projects valued at Kshs.1,337,851 were ongoing and seventy-three (73) projects valued at Kshs.71,676,414 were completed as indicated in the table below;

Sector	On-going		Completed	
	No	Value (Kshs)	No	Value (Kshs)
Emergency	0	Nil	3	3,405,000
Environment	0	Nil	2	637851
Sports	1	637,851	0	Nil
Education	0	Nil	64	63,533,563
Security	1	700,000	4	4,100,000
<b>Total</b>	<b>2</b>	<b>1,337,851</b>	<b>73</b>	<b>71,676,414</b>

In the circumstances, the residents of the Constituency did not receive value for money from the planned and budgeted for incomplete 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 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 the 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 to 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 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. 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 and weakness 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.

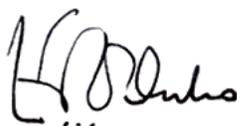
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- 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 to sustain its 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 to sustain its 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 and business activities of the Fund 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**