

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – SEME 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 – Seme Constituency set out on pages 6 to 29, 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- 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 – Seme 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 matters raised in both 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**

#### **1. Bank Balances**

Included in the statement of financial assets is an aggregate bank balance of Kshs.2,935,053 as at 30 June 2017. However, the balance differs with the cash book balance of Kshs.2,742,332 resulting in an unexplained variance of Kshs.192,721. In addition, the bank reconciliation statement as at 30 June 2017 includes unrepresented stale cheques amounting to Kshs.378,220 which had not yet been replaced nor reversed in the cashbook as at 30 June 2017.

Consequently, the accuracy of the bank balance of Kshs.2,935,053 cannot be confirmed.

#### **2. Use of Goods and Services**

Included in the use of goods and services balance of Kshs.8,227,695 are payments totaling to Kshs.1,093,000 relating to monitoring and evaluation activities which have not been supported with relevant documentation such as minutes of the respective management committees, signed acknowledgement schedules and signed evaluation reports.

Consequently, the validity of the expenditures totaling Kshs.1,093,000 incurred on use of goods and services cannot be confirmed.

### **3. Other Grants and Transfers**

Included in other grants and transfers balance of Kshs.38,446,129 are mocks and continuous assessment tests expenditures totaling Kshs.300,000. However, the payments were not supported with acknowledgment receipts from the recipient.

Consequently, validity of the Kshs.300,000 expenditure incurred under other grants and transfers cannot be confirmed.

### **4. Summary Statement of Appropriation**

The summary statement of appropriation indicates that the Fund received grants totaling Kshs.133,741,730 during the year under review as shown in the actual- on - comparable basis column. This is however at variance with the computed sum of Kshs.134,775,732 being the opening cash and cash equivalents of Kshs.29,637,362 and receipts in the year of Kshs.105,138,370. In addition, the adjustments of Kshs.82,793,454 have not been supported.

Consequently, the accuracy of the summary statement of appropriation cannot be confirmed.

### **5. Project Management Committee (PMC) Account Balances**

Annex 6 to the financial statements indicates that PMC account balances as at 30 June 2017 were Kshs.23,974,655. However, documentary evidence to support the balances has not been provided.

Consequently, the accuracy of the Project Management Committee account balance amounting to Kshs.23,974,655 cannot 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 – Seme 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 section, I have determined that there are no other Key Audit Matters to communicate in my report.

## Other Matter

### 1. Budget Performance

The Fund's approved budget for the year 2016/2017 amounted to Kshs.164,690,006. The total payments for the period amounted to Kshs.131,840,679. The analysis of comparison of budget and actuals is shown below:

<b>Expenditure</b>	<b>Approved Budget Kshs</b>	<b>Actual Expenditure Kshs</b>	<b>Variance Kshs</b>	<b>% of Utilization</b>
Compensation of employees	3,494,406	1,788,032	1,706,374	51%
Use of goods and services	9,221,463	8,227,695	993,768	89%
Transfers to other government units	101,634,316	82,127,819	19,506,497	81%
Other grants and transfers	49,088,257	38,446,129	10,642,128	78%
Acquisition of assets	1,251,564	1,251,004	560	100%
<b>Total</b>	<b>164,690,006</b>	<b>131,840,679</b>	<b>32,849,327</b>	<b>80%</b>

During the period under review, the Fund incurred expenditure of Kshs.131,840,679 or 80% of the approved budget resulting in under-expenditure of Kshs.32,849,327. This is attributed to late funding by the National Government Constituency Development Fund Board. Failure by the Board to remit funds on time denies the residents of Seme Constituency benefits of services from the planned projects.

### 2. Transfers to Other Government Units

Included in transfers to other government units balance of Kshs.82,127,819 were transfers to primary schools totaling Kshs.53,744,316 and transfers to secondary schools totaling Kshs.10,468,503 all totaling to Kshs.64,212,819. The transfers include Kshs.6,060,000 that were paid out of the emergency fund yet classified as transfers to other government units. Management has not explained why these payments were misclassified and whether they met the threshold for the utilization of emergency funds as per Section 8 of the National Government Constituencies Development Fund Act, 2015.

In addition, the following anomalies were noted:

- i. Ami Primary School received Kshs.1,600,000 for construction of two (2) classrooms for foundation, walling, plastering, roofing, fittings and painting.

Physical verification of the works in July 2018 revealed that the classrooms were complete and in use but cracks on the floors were visible.

- ii. Oruga Primary School received Kshs.1,000,000 in March 2017 for floor hacking, plastering, painting and fitting works on four (4) classrooms. Physical verification of the works in July 2018 revealed that only two classrooms were renovated but the walls developed cracks immediately thereafter.
- iii. Ranen Girls Secondary School received Kshs.800,000 in May 2017. However, the remittances had been budgeted and approved for Ranen Primary school. Management has not explained why the re-allocation was done without the board's approval.

Consequently, value-for-money and regularity of expenditure totaling Kshs.9,460,000 transferred to other government units cannot be confirmed.

### **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 sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management is aware of the intention to liquidate the Fund or cease its 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 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 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 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 January 2019**