

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – THARAKA 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 – Tharaka Constituency set out on pages 7 to 19, which comprise the statement of assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, 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– Tharaka 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, 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 Cash and Cash Equivalents

The financial statements reflects a cash and cash equivalents balance of Kshs.1,283,574 as at 30 June 2017. However, included in this balance were unpresented cheques totaling to Kshs.2,254,254 which further included fifty-five (55) stale cheques totaling to Kshs.569,602 which had not been replaced or reversed in the cash book as at 30 June 2017 as analyzed below;

Payee	No of Cheques	Amount (Kshs)
Various Learning Institutions	44	377,000
NHIF	3	7,180
NSSF	4	29,824
Commissioner of Income Taxes	2	18,100

Transnational Sacco	2	137,498
<b>Total</b>	<b>55</b>	<b>569,602</b>

In view of foregoing, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,283,574 as at 30 June 2017 could not be ascertained.

## **2.0 Non Acknowledgement of Bursary Funds**

Note 6 to the financial statements reflects other grants and other payments totaling to Kshs.41,081,918 which included bursaries totaling to Kshs.10,362,400 comprising of Kshs.6,843,400 and Kshs.3,519,000 disbursed to secondary schools and tertiary institutions respectively as at 30 June 2017. However, only bursaries totaling to Kshs.8,328,057 (80%) were acknowledged by the intended beneficiaries through letters of acknowledgement or issue of official receipts leaving a balance of Kshs.2,034,343 (20%) un acknowledged by the beneficiary institutions.

Under the circumstances, it has not been possible to ascertain whether the bursaries amounting to Kshs.2,034,343 benefited the intended students and whether were properly accounted for at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Tharaka 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. Budgetary Control and Performance**

The Fund had budgeted to receive Kshs.103,421,165 during the year under review made up Kshs.81,896,552 for the year under review and an additional Kshs.21,524,613 opening cash balance.

However, out of the Kshs. 81,896,552 that was budgeted for the year, only Kshs.50,948,277 (62.2%) was disbursed by the Board during the year resulting to a revenue shortfall of Kshs.30,948,275 (37.8%).

Further to the Kshs.50,948,277 received for the year, the Fund had a cash balance of Kshs.21,524,613 brought forward from the financial year 2015/2016 and a further Kshs.3,000,000 recalled from a PMC and therefore, the available funds for the year

under review was Kshs. 75,472,890. However, out of the Kshs.75,472,890 available to spending during the year, only Kshs.74,189,316 was spent while Kshs.1,283,574 remained unspent as at 30 June 2017.

As a result, the residents of Tharaka Constituency did not receive planned and expected services equivalent to Kshs. 32,231,849 comprised of Kshs. 30,948,275 budgeted funds but not received from the Board and Kshs.1,283,574 unspent funds as at 30 June 2017.

## 2. Project Implementation Status

The Fund had an approved budget of Kshs.81,896,552 comprising of both Recurrent and Development expenditures of Kshs.7,370,689 (9%) and Kshs.74,525,863 (91%) respectively for the year under review. The approved budget for development projects of Kshs.74,525,863 was apportioned among various sectors within the Constituency namely; Bursaries for Secondary & Tertiary Institutions, Mocks/Cats, Primary schools, Secondary schools, Sports, Water, Roads, Security, Emergency and Environmental.

Review of the project implementation status report revealed that 16 projects worth Kshs.20,032,898 were completed, 7 projects worth Kshs.30,711,930 were ongoing and 37 projects worth Kshs.23,781,035 had not started as shown below;

<b>Project Status</b>	<b>Sector</b>	<b>Amount Allocated (Kshs)</b>	<b>Amount Disbursed (Kshs)</b>	<b>No of Projects</b>
<b>Completed</b>	Bursaries, Education, Security, Sports and Environment	20,032,898	20,032,898	16
<b>Ongoing</b>	Education and Security	30,711,930	30,711,930	7
<b>Not Started</b>	Education, Water, Roads and Security	23,781,035	-	37
<b>Total</b>		<b>74,525,863</b>	<b>50,744,828</b>	<b>60</b>

In the circumstance, the residents of Tharaka Constituency did not get services equivalent to the Kshs.23,781,035 being the budgeted but not started projects and it was not possible to ascertain that the Fund would implement all projects as budgeted especially putting into account that 7 other budgeted projects worth Kshs.30,711,930 were ongoing.

## 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 continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting.

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:

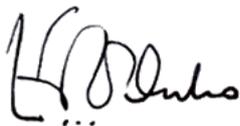
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 Company's ability to continue as a going concern or 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's to cease to continue as a going concern or 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**

**11 July 2018**