

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND-UGUNJA 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 - Ugunja Constituency set out on pages 6 to 44, which comprise the statement of receipts and payments, statement of assets as at 30 June 2017, statement of cash flows, 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 discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, the financial position of National Government Constituencies Development Fund - Ugunja 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 matter described in the Other Matter section of my report, 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 manner.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Ugunja 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.

### **Basis for Qualified Opinion**

#### **Cash and Cash Equivalent**

The financial statements reflect a bank balance of Kshs. 3,811,250 as at 30 June 2017. However, the balance includes stale unpresented cheques totaling Kshs.191,000 not reversed in the cash book at the end of the year.

Consequently, the cash and cash equivalents balance of Kshs.3,811,250 as at 30 June 2017 cannot be confirmed as correct.

### **Key Audit Matter**

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 Key Audit Matters to communicate in my report.

### **Other Matter**

### **Budget Analysis**

#### **Under-absorption of the Budget**

Comparison of budgeted and actual expenditure balances revealed the variances detailed below:

Analysis of the budget against the actual balances revealed that the Fund overspent

<b>Item</b>	<b>Budget Kshs.</b>	<b>Actual Kshs.</b>	<b>Variance Kshs.</b>	<b>Performance (%)</b>
Compensation of Employees	2,974,100	1,983,604	990,496	67
Use of Goods and Services	6,672,567	6,900,861	(228,294)	103
Transfers to other Government Entities	33,381,034	33,531,034	(150,000)	100
Other Grants and Transfers	46,225,828	42,898,780	3,327,048	93
Acquisition of Assets	6,880,000	6,980,000	(100,000)	101
<b>Total</b>	<b>96,113,529</b>	<b>92,294,279</b>	<b>3,839,250</b>	<b>96</b>

on three items namely; use of goods and services, transfer to other government entities and acquisition of assets. The total amount budgeted was Kshs.96,113,529 and total amount spent Kshs.92,294,279 leading to a net variance of Kshs.3,839,250 equivalent to an absorption rate of 96%.

Overall absorption of expenditure was satisfactory.

### **1. Construction of Library and Class Rooms**

Included under transfers to other government units balance of Kshs.33,531,034 is Kshs.4,060,011 and Kshs.2,924,000 paid to Logistics EA Limited and Telepac Enterprises respectively for the construction of a library and two class rooms at Equator Learning Centre whose original contract price was Kshs.4,409,791 for library block and Kshs.2,546,347 for two class rooms totaling Kshs.8,069,120 inclusive of VAT. However, the original contract to Logistics EA Limited was terminated and a new contract entered into with Telepac Enterprises of Kshs.3,100,000. However, the management neither availed the two contract agreements for audit verification nor provide project files to support how the funds were utilized.

Consequently, the regularity of the expenditure of Kshs.6,984,011 incurred on construction of the library and two class rooms for the year ended 30 June 2017 cannot be confirmed.

### **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 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 is aware of the intention to liquidate the Fund or have its operations cease.

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 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 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 or business activities to express an opinion on the financial statements.
- Perform such other procedures as I may 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**

**07 November 2018**