

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND (NG-CDF) – BUURI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund (NG-CDF) – Buuri Constituency set out on pages 8 to 32 which comprise the statement of assets and liabilities as at 30 June 2018, 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 – Buuri Constituency as at 30 June 2018, 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 National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1.0 Cash and Cash Equivalents**

Note 10 to the financial statements reflects Kshs.30,437,668 in respect to bank balances as at 30 June 2018. However, the respective bank reconciliation statement reflects Kshs.10,342,526 in respect to unpresented cheques which further includes 261 cheques totaling to Kshs.5,016,103 which were stale but had not been written back in the cash book as at the date of audit in February, 2019.

In the circumstances, the cash and cash equivalents balance of Kshs.30,437,668 has been understated by Kshs.5,016,103 as at 30 June 2018.

## **2.0 Other Grants and Other Payments**

### **2.1 Bursaries**

Note 7 of the financial statements reflects Kshs.16,358,201 in respect to other grants and other payments which includes Kshs.9,456,228 and Kshs.4,370,572 in respect to bursaries both totalling to Kshs.13,826,800 disbursed to secondary schools and tertiary institutions respectively during the year ended 30 June 2018.

However, only bursaries totalling to Kshs.5,982,660 (43%) were acknowledged by the respective beneficiaries through letters of acknowledgement or issue of official receipts leaving a balance of Kshs.7,844,140 (57%) un-acknowledged by the beneficiary schools and institutions.

Under the circumstances it has not been possible to ascertain whether the bursaries amounting to Kshs.7,844,140 benefited the intended beneficiaries and were expended as appropriated during the year ended 30 June 2018.

### **2.2 Emergency Project- Overpayment**

Note 7 to the financial statements for the year ended 30 June, 2018 reflects Kshs.16,358,201 in respect to other grants and other payments which includes Kshs.2,531,400 spent on Emergency Project. Included in the Kshs.2,531,400 is Kshs.1,931,932 spent on construction of three classrooms at Kieni Kia Ndege Primary School whose construction works had been awarded to a contractor at a contract sum of Kshs.1,500,000 leading to a contract variation of Kshs.431,932 or 28.8%. However, documents made available showed that only a variation of Kshs.300,000 had been requested for and approved leading to an overpayment of Kshs.131,932 to the contractor.

Further, a physical verification of the project in February 2019 revealed that although the three classrooms were in use, box gutters, downpipe, paint for the box gutters and ceiling finishes including brandering, cornice and celotex ceilings, which were to be done at a cost of Kshs.305,230 as per the Bill of Quantities, had not been done and the contractor was not on site.

In the circumstances, the propriety and value for the Kshs.131,932 and Kshs.305,230 expenditures both totalling to Kshs.437,162 during the year ended 30 June, 2018 could not be confirmed.

## **3.0 Project Management Committees (PMCs) Bank Account Balances**

Note 15.4 to the financial statements reflects Kshs.17,874,681 in respect to the PMCs bank account balances. These balances are part of the Fund's development budget of Kshs.92,856,607 for the year under review which was disbursed to PMCs to undertake various projects but remained utilized as at 30 June 2018. However, bank balance confirmation certificates for these PMCs accounts have not been availed for audit review.

In the circumstances, the existence and accuracy of Kshs.17,874,681 PMCs bank accounts balances for year ended 30 June 2018 could not be confirmed.

#### **4.0 Irregular Expenditure**

##### **4.1 Committee Allowances**

Note 5 to the financial statements reflects Kshs.5,821,972 in respect to use of goods and services for the year ended 30 June 2018 which includes Kshs.1,820,000 for committee expenses. However, review of the expenditure revealed that the Constituency Development Fund Committee (CDFC) held thirty-one (31) meetings contrary to Section 43(11) of the National Government Constituencies Development Fund Act, 2015 which requires the constituency committee to meet at least six times in a year but not to hold more than twenty-four meetings in the same financial year. The Kshs.1,820,000 expenditure therefore includes Kshs.364,000 payments in respect to seven (7) excess meetings held during the year under review.

In the circumstances, the propriety, validity and legality of the Kshs.364,000 expenditure for the year ended 30 June 2018 could not be confirmed including whether it is a proper charge to public funds.

##### **4.2 Procurement of Website**

Note 5 to the financial statements reflects Kshs.5,821,972 in respect to use of goods and services for the year ended 30 June, 2018 which includes Kshs.964,460 for communication, supplies and services. Included in the Kshs.964,460 is Kshs.100,000 paid for implementation and maintenance of website for Buuri constituency. However, service agreement between the supplier and Buuri constituency has not been provided for audit verification.

Further, minutes of the inspection and acceptance committee recommending the payment to the supplier after the implementation of the website were not availed for audit review.

In the circumstances, the propriety of the website implementation and maintenance expenditure of Kshs.100,000 for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of NG-CDF Buuri 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

### 1.0 Budgetary Control and Performance

#### 1.1 Revenue Analysis

The Fund's summary statement of appropriation: recurrent and development combined for the year ended 30 June 2018 reflects an approved receipt budget of Kshs.103,708,089 and actual receipts of Kshs.43,405,172 resulting to budget shortfall of Kshs.60,302,917. Overall, the Fund failed to actualize its budget by Kshs.60,302,917 or (58%) an indication that most of the programmes and activities that had been planned were not implemented. There is need therefore for Constituency Development Fund management to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the citizens of Buuri Constituency.

#### 1.2 Expenditure Analysis

The Fund's budgeted payments during the year ended 30 June 2018 is Kshs.103,708,089 and actual payments of Kshs.25,099,856 resulting to an under expenditure of Kshs.78,608,233 as follows;

<b>Expenditure Analysis</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Absorption</b>
	<b>(Kshs.)</b>	<b>(Kshs.)</b>	<b>(Kshs.)</b>	<b>(%)</b>
<b>Recurrent</b>				
Compensation of Employee	2,132,400	1,419,684	712,716	67%
Use of Goods and services	8,719,082	5,821,972	2,897,110	67%
<b>Total</b>	<b>10,851,482</b>	<b>7,241,656</b>	<b>3,609,826</b>	<b>67%</b>
<b>Development</b>				
Transfer to Other Government Unit	29,200,000	1,500,000	27,700,000	5%
Other Grants and Transfers	56,581,607	16,358,200	40,223,407	29%
Acquisition of Assets	7,075,000	-	-	0%
<b>Total</b>	<b>92,856,607</b>	<b>17,858,200</b>	<b>67,923,407</b>	<b>19%</b>
<b>Grand Total</b>	<b>103,708,089</b>	<b>25,099,856</b>	<b>78,608,233</b>	<b>24%</b>

In overall, the NG-CDF Buuri Constituency under spent its budget by Kshs.78,608,233 of the total budget allocation. The funds could have been allocated to other deserving

areas that would have improved delivery of goods and services to the residents of Buuri Constituency. There is need therefore for the management to re-look at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the citizens of Buuri Constituency.

### 1.3 Project Implementation Status

The Fund had an overall approved expenditure budget of Kshs.103,708,089 comprising of both recurrent and development expenditure of Kshs.10,851,482 (10.5%) and Kshs.92,856,607 (89.5%) respectively for the year under review.

Review of the project implementation status report as at 30 June 2018 revealed that out of the Kshs.92,856,607 development expenditure allocated to the Fund for projects, none were completed, seven (07) worth Kshs38,875,862 (42%) are on-going and thirty-seven (37) worth Kshs.53,980,745 (58%) had not been started as shown below;

Projects	Allocated Amount (Kshs)	Disbursed Amount (Kshs)	Not Disbursed (Kshs)	No of Projects
<b>Ongoing</b>				
Bursary - Secondary Schools	24,306,896	9,456,228	14,850,668	1
Bursary - Tertiary Institutions	7,000,000	4,370,572	2,629,428	1
Education - Primary Schools	3,000,000	1,500,000	1,500,000	4
Emergency	4,568,966	2,531,400	2,037,566	1
<b>Subtotal</b>	<b>38,875,862</b>	<b>17,858,200</b>	<b>21,017,662</b>	<b>7</b>
<b>Not Started</b>				
Strategic plan	3,500,000	-	3,500,000	1
ICT Hubs	4,677,027	-	4,677,027	1
Sports	1,736,206	-	1,736,206	1
Environment	1,736,206	-	1,736,206	1
NG-CDF Office	7,075,000	-	7,075,000	3
Education - Secondary Schools	17,000,000	-	17,000,000	10
Education - Primary Schools	10,856,306	-	10,856,306	16
Security	7,400,000	-	7,400,000	4
<b>Subtotal</b>	<b>53,980,745</b>	<b>-</b>	<b>53,980,745</b>	<b>37</b>
<b>Total</b>	<b>92,856,607</b>	<b>17,858,200</b>	<b>74,998,407</b>	<b>44</b>

In view of the foregoing, the constituents did not get the expected services equivalent to the Kshs.38,875,862 ongoing projects and the Kshs.53,980,745 projects not started all totalling to Kshs.92,856,607 for the year ended 30 June 2018. This is an indication of inappropriate project implementation mechanism. Therefore, there is need for the Constituency Development Fund Committee (CDFC) to review its project planning mechanism with a view to prioritizing those projects which will be implemented during the financial year resulting to higher impact into improving service delivery to the citizen of Buuri Constituency.

## 2.0 Progress on Follow up of Auditor Recommendations for Year Ended 30 June 2017

The financial statements for the year under review includes, at page 32, a progress on follow up of auditor recommendations as prescribed by the International Public Sector Accounting Standards Board (PSASB). However, this progress report indicates that all issues raised by the auditor on previous year's issues were resolved but no evidence has been availed for verification to show how the issues were resolved.

In the circumstances, the accuracy and completeness of the information on progress on follow up of auditor recommendations for the year ended 30 June 2017 could not be confirmed.

## 2.0 Agreement of Notes to Financial Statements and Statement of Assets & Liabilities and Statement of Cash Flow

The notes to financial statements reflects notes 10, 13 and 14 in respect to cash balance at the year end, cash balances brought forward and prior year adjustments respectively for the year under review. However, the same notes in the statement of assets & liabilities and statement of cash flow differed in numbering as follows;

<b>Item</b>	<b>Notes to Financial Statements</b>	<b>Statement of Assets &amp; Liabilities</b>	<b>Statement of Cash Flow</b>
Cash balances at year end(cash and cash equivalent at end of the year)	Note 10	Note 10	Note 16
Cash balances brought forward (cash and cash equivalent at beginning of the year)	Note 13	Note 12	Note 17
Prior year adjustments	Note 14	Note 13	Note 14

In view of above, the notes to financial statements are not in agreement with the note quoted in the respective financial statements thereby creating a confusion to the readers of the financial statements for the year under review.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **1.0 Prior Year Adjustment**

The statement of assets & liabilities and statement of cash flow reflects Kshs.1,072,540 in respect to prior year adjustments as at 30 June 2018. According to IPSAS 3, a prior period adjustment may either be a correction of an error in the financial statements reported for a prior period or change in accounting policy / estimate from the previous year. However, no evidence was availed for verification to warrant a prior year adjustment.

In the circumstance, the Fund is in breach of the standard.

### **Basis for conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit so as to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

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 maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

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 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness



of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

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.
- 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 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 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**

**12 April 2019**