

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND (NG-CDF) – IGEMBE NORTH 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– Igembe North Constituency set out on pages 6 to 39 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 combine 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 – Igembe North 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 Accuracy of the Financial Statements**

##### **1.1 Statement of Assets and Liabilities**

The statement of assets and liabilities for the year under review reflects comparative 2016/2017 balance of Kshs.17,707 in respect surplus while the audited 2016/2017 financial statements reflected a deficit of Kshs.17,707 for the same item resulting to an unexplained variance of Kshs.35,414.

In the circumstances, the validity and accuracy of the statement of assets and liabilities balances as at 30 June 2018 could not be confirmed.

##### **1.2 Statement of Cash Flow**

The statement of cash flow for the year under review reflects a cash and cash equivalent balance of Kshs.3,689,113 and Kshs.3,849,288 in respect to closing balance for the

financial year 2016-2017 and opening balance for year under review respectively resulting to an unexplained variance of Kshs.160,175.

In the circumstances, the validity and accuracy of the statement of cash flow for the year ended 30 June 2018 could not be ascertained.

### **1.3 Summary Statement of Appropriation: Recurrent and Development Combined**

The summary statement of appropriation: recurrent and development combined for the year under review reflects a budget utilization difference Kshs.54,784,484 in respect of transfers from National Government Constituencies Development Fund (NGCDF) Board. However, even though there were no other receipts during the year, the statement reflects a total of Kshs.54,054,461 for the same item resulting to an unexplained variance of Kshs.730,023.

In the circumstances, the validity and accuracy of the summary statement of appropriation: recurrent and development combined for the year ended 30 June 2018 could not be ascertained.

### **1.4 Unutilized Funds**

Note 15.3 to the financial statements reflects Kshs.76,359,259 in respect to unutilized funds balance as at 30 June 2018. However, a recasting of the figures gave a total of Kshs.77,099,258 resulting to an unexplained variance of Kshs.739,999.

In the circumstances, the validity and accuracy of the unutilized funds balance of Kshs.76,359,259 for the year ended 30 June 2018 could not be ascertained.

### **2.0 Cash and Cash Equivalents**

Note 10 to the financial statements reflects Kshs.21,574,775 in respect to cash and cash equivalents balances as at 30 June 2018. However, included in the Kshs.21,574,775 are un-presented cheques totaling to Kshs.7,277,444 which further includes stale cheques totaling to Kshs.1,928,230 and which had not been replaced or reversed in the cashbook as at 30 June 2018 thereby understating the cashbook balance by the same amount. Further, the certificate of bank balance of Equity Bank account reflected Kshs.2,583,826 while bank reconciliation reflected Kshs.2,721,826 resulting to unexplained variance of Kshs.138,000.

In view of the above, the validity and accuracy of the cash and cash equivalents balance of Kshs.21,574,775 as at 30 June 2018 could not be confirmed.

### **3.0 Bursary Funds**

Note 7 to the financial statements reflects Kshs.19,124,665 in respect to other grants and other payments which includes Kshs.8,046,865, Kshs.7,262,800 and Kshs.315,000 all

totalling to Kshs.15,624,665 in respect to bursaries disbursed to secondary schools, tertiary institutions and special schools respectively during the year ended 30 June 2018. However, only bursaries totalling to Kshs.7,646,740 (49%) were acknowledged by the respective beneficiaries through letters of acknowledgement or issue of official receipts leaving a balance of Kshs.7,977,925 (51%) un-acknowledged by the beneficiary schools and institutions. Further, included in the Kshs.7,977,925 are bursaries totalling to Kshs.785,503 awarded to students without admission numbers from their respective institutions.

In the circumstances, it has not been possible to ascertain whether the bursaries amounting to Kshs.7,977,925 benefited the intended beneficiaries and were expended as appropriated during the year ended 30 June 2018.

#### **4.0 Nugatory Expenditure**

Note 5 to the financial statements reflects Kshs.5,578,700 in respect to use of goods and services for the year ended 30 June 2018 which includes Kshs.5,082,800 for committee expenses which further includes Kshs.396,000 paid as allowances to committee members during monitoring and evaluation of projects.

However, it has not been possible to establish which projects the members were monitoring and evaluating since no supporting evidence was availed for audit review. Further, included in the Kshs.396,000 is Kshs.96,000 paid as allowances to unknown people without the approval of the committee members.

In the circumstances, the propriety and value for money for the Kshs.396,000 expenditure in respect to monitoring and evaluation 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 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 Receipt 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.106,738,944 and actual receipts of Kshs.51,954,460 resulting to a budget shortfall of Kshs.54,784,484.

In overall, the Fund failed to actualize its budget by Kshs.54,784,484 or 51% an indication that most of the programs and activities that had been planned were not implemented. There is need therefore for the Constituency Development Fund (CDF) 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 Igembe North Constituency.

## 1.2 Expenditure Analysis

The Fund's summary statement of appropriation: recurrent and development combined reflects budgeted payments for the year ended 30 June, 2018 of Kshs.106,738,944 and actual payments of Kshs.30,379,685 resulting to an under expenditure of Kshs.76,359,259 as follows;

Item	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	% Utilization
<b>Recurrent</b>				
Compensation of employees	2,745,560	1,676,320	1,069,240	61%
Use of goods and services	7,288,659	5,578,700	1,709,959	77%
<b>Sub Total</b>	<b>10,034,219</b>	<b>7,255,020</b>	<b>2,779,199</b>	<b>72%</b>
<b>Development</b>				
Transfers to other Government units	38,827,348	-	38,827,348	0%
Other grants and transfers	23,899,552	19,124,665	4,774,887	80%
Acquisition of Assets	16,560,000	4,000,000	12,560,000	24%
Other payments	6,038,514	-	6,038,514	0%
Additional Proposal	11,379,311	-	11,379,311	0%
<b>Sub Total</b>	<b>96,704,725</b>	<b>23,124,665</b>	<b>73,580,060</b>	<b>24%</b>
<b>TOTAL</b>	<b>106,738,944</b>	<b>30,379,685</b>	<b>76,359,259</b>	<b>28%</b>

In overall, the NG-CDF Igembe North Constituency underspent its budget by Kshs.76,359,259 of the total budgeted expenditure. The funds could have been allocated to other deserving areas that would have improved delivery of goods and services to the residents of Igembe North 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 Igembe North Constituency.

### 1.3 Project Implementation Status

The Fund had an approved expenditure budget of Kshs.106,738,944 comprising of both recurrent and development expenditure of Kshs.10,034,219 (9.4%) and Kshs.96,704,725 (90.6%) respectively for the year under review.

Review of the project implementation status report as at 30 June, 2018 revealed that out of the Kshs.96,704,725 development budget allocated to the Fund for projects, only two (2) projects worth Kshs.7,500,000 (7.8%) were completed, two (2) worth Kshs.18,330,585 (19%) were on-going and sixty-nine (69) worth Kshs.70,874,140 (73.2%) were yet to be started as shown below;

Project	Total Allocation (Kshs)	Disbursement (Kshs)	No of Projects	Implementation Status
Strategic Plan	3,500,000	3,500,000	1	Completed
Office Furniture & Equipment	4,000,000	4,000,000	1	
<b>Sub Total</b>	<b>7,500,000</b>	<b>7,500,000</b>	<b>2</b>	
Bursary	18,330,585	15,624,665	2	On going
Emergency	4,568,966	-	1	Not started
Education-Primary Schools	29,484,079	-	31	
Education Secondary Schools	9,343,270	-	9	
Security Projects	1,000,000	-	1	
ICT Hubs	6,038,514	1,338,513	1	
Motor Vehicle	6,800,000	6,800,000	1	
Fund Website	260,000	260,000	1	
Office Re-designing and Renovation	2,000,000	2,000,000	1	
Additional Proposal	11,379,311	-	23	
<b>Sub Total</b>	<b>70,874,140</b>	<b>10,398,513</b>	<b>69</b>	
<b>Total</b>	<b>96,704,725</b>	<b>33,523,178</b>	<b>73</b>	

In view of the foregoing, the constituents did not get the expected services equivalent to the Kshs.18,330,585 of ongoing projects and Kshs.70,874,140 of projects not started all totalling to Kshs.89,204,725 for the year ended 30 June 2018. This is an indication of ineffective project implementation mechanism.

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 Igembe North Constituency.

## **2.0 Progress on Follow up of Auditor Recommendations**

The progress on follow up of auditor recommendations annexed at pages 31 to 39 of the financial statements indicates that all issues raised by the auditor in previous year were all resolved. However, no documentary evidence has been availed for verification to show how and when the issues were resolved.

In view of above, the accuracy and completeness of the information contained in the financial statements for the year under review could not be ascertained.

## **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 matters 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.

### **Basis for Conclusion**

#### **1.0 Presentation of the Financial Statements**

The financial statements for the year under review did not include the head of finance (Sub County Accountant) Institute of Certified Public Accountant (ICPAK) membership number as required by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the recommended (PSASB) format.

#### **2.0 Irregular Procurement of Office Furniture and General Equipment**

Note 8 to the financial statements reflects Kshs.4,000,000 in respect to purchase of office furniture and general equipment as at 30 June 2018. However, the Fund used the request for quotations to procure the office furniture and general equipment contrary to the maximum threshold limit of Kshs.500,000 set in the threshold matrix of the Public Procurement and Disposal (Amendments) Regulations, 2013.

In the circumstance, the Fund was in breach of the law.

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**

**10 April 2019**