

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KWANZA 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 – Kwanza Constituency set out on pages 1 to 26, which comprise the statement of financial assets as at 30 June 2018, and the statements of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 effects of the matter 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 Constituency Development Fund – Kwanza 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 the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

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

Note 11 to the financial statements reflects project management committee bank account balance of Kshs.9,977,752 as at 30 June 2018 as disclosed under Annex 4. However, cash books, bank reconciliation statements and bank confirmation certificates in support of the balance of Kshs.9,977,752 were not availed for review. In addition, the amount is not in agreement with Kshs.8,544 reflected in the statement of assets. In the circumstances, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.8,544 as at 30 June 2018 is fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Kwanza 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 matter described in the Basis for Qualified Opinion, I have determined that there are no key audit matters to communicate in my report.

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

### Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Report on Lawfulness and Effective 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. Budget Control and Performance

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Transfers from NGCDF Board	86,810,345	19,566,692	106,377,037	43,405,172	62,971,865	41%
Proceeds from Sale of Assets						
Other Receipts						
	<b>86,810,345</b>	<b>19,566,692</b>	<b>106,377,037</b>	<b>43,405,172</b>	<b>62,971,865</b>	<b>41%</b>
Payments						
Compensation of Employees	2,490,000	132,720	2,622,720	2,513,692	109,000	96%
Use of goods and services	7,822,930	2,012,241	9,835,171	5,337,318	4,497,853	54%
Transfers to Other Government Units	40,500,000	12,960,000	53,460,000	17,350,000	36,110,000	32%
Other grants and transfers	31,320,388	4,428,336	35,748,724	26,383,000	9,365,724	74%
Acquisition of Assets	0	33,395	33,395	0	33,395	0%
Other Payments	4,677,027	0	4,677,027	0	4,677,027	0%
<b>Totals</b>	<b>86,810,345</b>	<b>19,566,692</b>	<b>106,377,037</b>	<b>51,584,010</b>	<b>54,792,999</b>	<b>48%</b>

#### 1.1 Budget Performance

During the year under review, the Fund had an approved budget of Kshs.106,377,037 and received Kshs.43,405,172 from NGCDF Board, resulting into an underfunding of Kshs.62,971,865. No satisfactory explanation was given for such underfunding. Further, it was noted that out of the amount received of Kshs.43,405,172, the Fund only spent

Kshs.51,584,010, resulting in overall budget under-absorption of Kshs.54,792,999 as detailed below;

The underutilization of the available funds imply that approved programs were not implemented, and thus the budget did not fully meet the objectives of improving service delivery to Kwanza Constituents.

## 1.2 Delays in Projects' Implementation

Scrutiny of the Projects Implementation Status of Fund reveals that the management of the fund had an approved plan to implement eight hundred (800) projects between financial year 2013/2014 to 2017/2018, valued at Kshs.435,906,589. However, ninety-five (95) or 11.88% of total projects valued at Kshs.4 Million had not started, one hundred and seventy-nine (179) or 22.38% valued at Kshs.177,587,931 were still ongoing and five hundred and twenty-six (526) or 65.75% valued at Kshs.254,318,658 were completed as summarized in the table below;

Sector/Status	Not yet started		Ongoing		Completed	
	No	Value (Kshs)	No	Value (Kshs)	No	Value (Kshs)
Administration	6	500,000	15	35,855,172	37	69,413,364
Agriculture	0	0	0	0	7	2,900,000
Education	30	2,300,000	123	113,950,000	189	132,825,416
Emergency	1	200,000	13	2,650,000	56	11,809,878
Environment	50	500,000.	0	0	181	4,770,000
Health	0	0	13	12,632,759	19	6,100,000
Roads/Bridges	0	0	3	4,000,000	16	14,150,000
Security	8	500,000	12	8,500,000	18	10,850,000
Sports	0	0	0	0	3	1,500,000
<b>Total</b>	<b>95</b>	<b>4,000,000</b>	<b>179</b>	<b>177,587,931</b>	<b>526</b>	<b>254,318,658</b>
<b>Grand Total</b>		<b>800 Projects</b>		<b>435,906,589</b>		

In the circumstances, the Kwanza Constituents may not have accessed the planned development facilities and services due from the incomplete projects.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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 matter described in the Basis for Conclusion on Report on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis of Conclusion**

### **IT Internal controls**

The Fund did not have the Information Technology Strategic policy nor strategic plan, active IT steering committee either at the constituency level or at the Board level, formally approved IT Security policy to ensure data confidentiality, formally documented and approved process to manage upgrades, environmental controls such as fire suppression systems, fire extinguishers and air conditioning systems. However, the Fund manager is trained on IT in the Constituency and such training has not been extended to other staff members.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit 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 continue 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.

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 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 cease 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**

**12 July 2019**