

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCY DEVELOPMENT FUND - MANYATTA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018**

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituency Development Fund (NGCDF) - Manyatta Constituency set out on pages 10 to 32, which comprise the statement of financial 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 Constituency Development Fund - Manyatta 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 Constituency Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1.0 Unsupported Prior Year Adjustments**

Note 9 to the financial statements reflects a balance of Kshs.1,944,505 in respect to prior year adjustments for the year ended 30 June 2018. However, documentation in support of the adjustments was not availed for audit review.

In the circumstances it is not possible to determine the accuracy and authenticity of the Kshs.1,944,505 prior year adjustments for the year ended 30 June 2018.

#### **2.0 Unaccounted for Bursary**

Note 5 to the financial statements reflects other grants and other payments totaling to Kshs.16,027,961 which included Kshs.555,549 spent in respect to Bursary to Secondary

which further included Kshs.407,949 bursary disbursements and which were however, not supported by acknowledgement receipts from the respective schools .

In the circumstance, it was not possible to ascertain whether the Kshs.407,949 was received and expended as appropriated during the year ended 30 June 2018.

### **3.0 Transfer to Secondary Schools**

Note 4 to the financial statements reflects Kshs.13,650,000 expenditure in respect to transfer to secondary schools which includes Kshs.6,000,000 transferred to a secondary school for construction of multipurpose hall and a kitchen which further includes Kshs.1,305,900 in respect to painting, windows glazing, doors, wall and floor finishes, mechanical and electrical works. A physical verification carried out in the month of January 2019 revealed that the contractor was on site, however works costing Kshs.1,305,900 or 21.8% had not been done. Review of the payments schedule revealed that the Kshs.6,000,000 (100%) contract price had been paid to the contractor although work done was 78.2%. No explanation was provided as to why the Kshs.1,305,900 payment was made for work not done.

In the circumstance, it was not possible to ascertain whether the Kshs.1,305,900 expenditure was a proper charge to public funds and whether it had equivalent value for money during the year ended 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituency Development Fund - Manyatta 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(s) 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 Receipts

The summary statement of appropriation recurrent and development combined reflected approved budgeted receipts of Kshs.102,560,685 and actual income of KShs.46,043,103 resulting in net under receipts of Kshs.56,517,582 as summarized below;

Items	Current year Budget Figures	Actual Receipts	Budget utilization Difference	% of utilization
	Kshs.	Kshs.	Kshs.	
<b>Receipts</b>				
Transfer from NGCDF Board	102,560,685	46,043,103	56,517,582	44.9%
<b>TOTAL</b>	<b>102,560,685</b>	<b>46,043,103</b>	<b>56,517,582</b>	<b>44.9%</b>

Overall, the fund failed to actualize its budget by Kshs.56,517,582 or 55.1% 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 Manyatta Constituency.

## 1.2 Payments

The summary statement of appropriation recurrent and development combined reflected approved budgeted payments of Kshs.102,560,685 and actual payments of KShs.41,248,175 resulting in net under expenditure of Kshs.61,312,510 as summarized below;

Items	Current year Budget Figures	Actual on comparable Basis	Budget utilization Difference	% of utilization
<b>PAYMENTS</b>				
Compensation of Employees	3,293,159	2,211,084	1,082,075	<b>67.1%</b>
Use of Good and Services	10,607,068	6,059,130	4,547,938	<b>57.1%</b>
Transfer to Other Government Units	34,648,276	16,250,000	18,398,276	<b>46.9%</b>
Other Grant and Transfers	52,142,926	16,027,961	36,114,965	<b>30.7%</b>
Acquisition of Assets	700,000	700,000	-	<b>100.0%</b>
Other payments	1,169,256		1,169,256	<b>0.0%</b>
<b>Total Expenditure</b>	<b>102,560,685</b>	<b>41,248,175</b>	<b>61,312,510</b>	<b>40.2%</b>

In overall, the National Government Constituency Development Fund - Manyatta Constituency under spent its budget by Kshs.61,312,510 of the total budget allocation. There is need therefore for the management to re-look at its budgeting mechanism with a view to focusing on priority areas which will improve service delivery to the residents of Manyatta Constituency. This may also be an indication of improper planning and defective budgetary preparation process.

In the circumstances the residents of the Manyatta Constituency did not get expected services equivalent to Kshs.61,312,510 under expenditure for the year ended 30 June 2018.

## 2.0 Project Implementation Status

Review of project implementation status report for the period 2017/2018 revealed that sixty three (63) projects worth Kshs.88,660,458 were budgeted to be implemented during the year under review. However, out of the sixty three (63) projects, forty three projects worth Kshs.32,977,961 were funded comprising of thirty (30) projects worth Kshs.20,041,855 which were completed and thirteen (13) projects worth Kshs.12,936,106 which were ongoing while twenty (20) projects worth Kshs.55,682,497 had not started as at 30 June 2018 as follows;

<b>Sector</b>	<b>Project Status</b>	<b>Amount Allocated</b>	<b>Amount Disbursed</b>	<b>Number Of Projects</b>
<b>Education</b>	Completed	4,750,000	4,750,000	10
	Ongoing	11,500,000	11,500,000	6
	Not Started	18,398,276		12
	<b>TOTAL</b>	<b>34,648,276</b>	<b>16,250,000</b>	<b>28</b>
<b>Sport</b>	Completed	1,236,306	1,236,306	1
	Ongoing	-	-	
	Not Started	227,586		1
	<b>TOTAL</b>	<b>1,463,892</b>	<b>1,236,306</b>	<b>2</b>
<b>Bursary</b>	Completed	555,549	555,549	1
	Ongoing	-	-	
	Not Started	26,071,662		1
	<b>TOTAL</b>	<b>26,627,211</b>	<b>555,549</b>	<b>2</b>
<b>Security</b>	Completed	8,450,000	8,450,000	6
	Ongoing	-	-	-
	Not Started	8,200,000		4
	<b>TOTAL</b>	<b>16,650,000</b>	<b>8,450,000</b>	<b>10</b>
<b>Environment</b>	Completed			
	Ongoing	1,236,106	1,236,106	6
	Not Started	1,027,786		1

<b>Sector</b>	<b>Project Status</b>	<b>Amount Allocated</b>	<b>Amount Disbursed</b>	<b>Number Of Projects</b>
	<b>TOTAL</b>	<b>2,263,892</b>	<b>1,236,106</b>	<b>7</b>
<b>Emergency</b>	Completed	4,350,000	4,350,000	10
	Ongoing	200,000	200,000	1
	Not Started	587,931		1
	<b>TOTAL</b>	<b>5,137,931</b>	<b>4,550,000</b>	<b>12</b>
<b>Acquisition of Assets</b>	Completed	700,000	700,000	1
	Ongoing			
	Not Started			
	<b>TOTAL</b>	<b>700,000</b>	<b>700,000</b>	<b>1</b>
<b>Purchase Of ICT Hub</b>	Completed			
	Ongoing			
	Not Started	1,169,256		1
	<b>TOTAL</b>	<b>1,169,256</b>	<b>0</b>	<b>1</b>
<b>Grand Total</b>		<b>88,660,458</b>	<b>32,977,961</b>	<b>63</b>

In view of the foregoing, the constituents did not get the expected services equivalent to the thirteen (13) ongoing and twenty (20) not started projects all totaling to Kshs.68,618,603 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 management 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 Manyatta Constituency.

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

### Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Conclusion on Compliance and Effectiveness section of my report, I confirm that, nothing 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 International Public Sector Accounting Standards (Cash Basis) reporting template for Ministries, Departments and Agencies (MDAs) revised in 2018 prescribed by the Public Sector Accounting Standards Board (PSASB) require government entities to include a separate statement of appropriation recurrent and development, budget execution by programmes and sub programmes. However, the Funds financial statements for the year ended 30 June 2018 did not include these statements.

Further, the template stipulates that the progress on follow up of auditor recommendations should include status of audit issues raised and the date when the issues are expected to be resolved. However, annex 4 to the financial statements on progress on follow up of auditor recommendations indicated that the issue raised on the certificate for year 2016/2017 were all resolved, the respective documentary evidence showing how and when the issues were resolved was not provided for audit review.

In view of the foregoing, the presentation of the financial statements for the year ended 30 June 2018 did not conform to the Public Accounting Standards Board requirements.

## **2.0 Project Management Committee Bank Balances**

Annex 3 to the financial statements reflects Kshs.22,444,904 in respect to project management committee (PMC) bank balances. However, the cashbooks and bank reconciliation statements were not availed for audit review contrary to the requirement of Sections 100 and 90 (1), (3) of the Public Finance Management (National Government) regulations 2015 which stipulates that Accounting Officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall ensure that bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month.

In the circumstances, the Fund is in breach of the law and it has not been possible to ascertain the accuracy of Kshs.22,444,904 project management committee (PMC) bank balances as at 30 June 2018.

## **3.0 Irregular Use of Emergency Funds**

Note 5 to the financial statements reflects a Kshs.16,027,961 expenditure in respect to other grants and payments which includes Kshs.4,550,000 spent in respect to emergency projects. However, review of the project files indicated that the application for emergency funding and report on urgent unforeseen situation were not in the file and were also not availed for audit review. Therefore, the expenditure appeared to have been on projects that were not emergency in nature contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which stipulates that expenditure on emergency should be for an urgent, unforeseen need for expenditure which in the opinion of the constituency committee cannot be delayed until the next financial year without harming the public interest of the constituents. Further, report on utilization of emergency funds to the board as required by Section 20 (2) of the same regulation which stipulates that utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency was not provided for audit review.

In the circumstances, 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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the 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.

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, 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 National Government Constituency Development Fund - Manyatta Constituency'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 National Government Constituency Development Fund - Manyatta Constituency 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 National Government Constituency Development Fund - Manyatta Constituency's 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 National Government Constituency Development Fund - Manyatta Constituency'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 with limited assurance as to 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 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 noncompliance. 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 National Government Constituency Development Fund - Manyatta Constituency'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 National Government Constituency Development Fund - Manyatta Constituency'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 National Government Constituency Development Fund - Manyatta Constituency to cease to continue 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 National Government Constituency Development Fund - Manyatta Constituency 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**

**05 March 2019**