

REPUBLIC OF KENYA

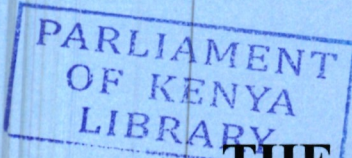


OFFICE OF THE AUDITOR-GENERAL

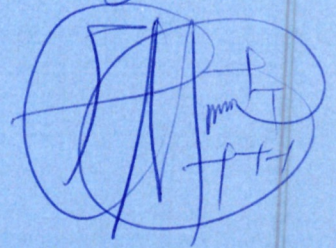
Paper Laid on the Table of the House by the Deputy Majority Leader on 28th August 2018.

REPORT

OF



THE AUDITOR-GENERAL



ON

THE FINANCIAL STATEMENTS OF NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND BOARD

FOR THE YEAR ENDED 30 JUNE 2017



NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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I. KEY NGCDF INFORMATION AND MANAGEMENT

(a) Background information

The National Government Constituencies Development Fund (NGCDF) is established under the National Government Constituencies Development Fund (Amendment) Act, 2015. The NGCDF is under the Ministry of Devolution and Planning. The objective of the Fund is to provide mechanisms for supplementing implementation of the National Government development Agenda at the constituency level.

The Fund's overall management is the responsibility of the NGCDF Board. While the supervision and coordination is done by Ministry of Devolution and planning.

The Board is now in the process of aligning the operations of the Fund with new Act and the Constitution. The Board launched its new strategic plan on 16th August 2016 for the planning period 2016/2017 to 2020/2021. The Board also attained ISO certification in March 2016 whose unveiling was done on the same date 16th August 2016.

(b) Principal Activities

As outlined in the NGCDF Act 2015 the Board's core mandate and responsibilities include:

- Ensuring timely and efficient disbursements of funds to every constituency
- Ensuring efficient management of the fund
- Receiving and discussing annual reports and returns from the constituencies
- Ensuring the compilation of proper records, returns and reports from the constituencies
- Receiving and addressing complaints and disputes, and taking appropriate action
- Considering project proposals submitted from various constituencies in accordance with the Act, approving for funding for those projects proposals that are consistent with the Act and sending funds to respective Constituency Fund accounts of the approved projects.

The Board will provide strategic direction in the management, use and accountability of monies drawn from the Fund. The Board therefore aspires to the following Vision, Mission and Core Values in meeting its mandate.

VISION

Equitable Socio-economic development countrywide

MISSION

To provide leadership and policy direction for effective and efficient management of the Fund

CORE VALUES

1. Patriotism – we uphold the national pride of all Kenyans through our work
2. Participation of the people- We involve citizens in making decisions about programmes we fund
3. Timeliness – we adhere to prompt delivery of service
4. Good governance – we uphold high standards of transparency, accountability, equity, inclusiveness and integrity in the service of the people
5. Sustainable development – we promote development activities that meet the needs of the present without compromising the ability of future generations to meet their own needs.

KEY STRATEGIC OBJECTIVES

1. To improve operational efficiency and effectiveness in service delivery
2. To Strengthen Institutional Capacity (skills, numbers and work environment)
3. To ensure efficient and effective project management
4. Enhance good governance
5. Promote effective communication and appropriate partnership

STRATEGIC GOALS

- a) Continue Automation of Board's operations

- b) Improve performance management
- c) Implement quality management systems
- d) Improve accounting system
- e) Strengthen research capacity to support evidence based decision making
- f) Strengthening Audit and risk management
- g) Strengthen disaster responsiveness and management
- h) streamline the organizational structure
- i) develop capacity of staff
- j) Develop and implement a talent management and succession planning strategy
- k) improve on the work environment
- l) Promote public participation in project identification and implementation
- m) Promote timely submission and approval of project proposals
- n) Promote prioritization of on-going projects in allocation of Funds
- o) Improve collaboration with technical officers from relevant government agencies
- p) Improve management of transition of NG-CDFC's in relation to resources and projects
- q) widen projects scope and strengthen collaboration with MDAs
- r) Promote openness and accountability in management of the Fund
- s) Promote compliance with applicable laws, regulations and standards.
- t) Adopt Transformative Leadership
- u) Mainstream Cross cutting issues and public participation
- v) Enhance engagement with internal & external stakeholders
- w) Enhance Media Relations
- x) Enhance relations with other Government agencies
- y) Enhance Media monitoring

STRATEGIC PROGRAMMES

- a) Design, Develop & Rollout Management information systems
- b) Further installation of appropriate ICT network infrastructure and improve their security
- c) Develop and implement annual performance contract for the board, cascade to constituencies
- d) Operationalize M&E Unit and review M&E framework
- e) Develop constituencies factsheets and conduct monitoring & evaluation of Boards' operations

- f) Continuously carry out QMS audits to maintain certification and carry out recertification audit for organization
- g) Develop and disseminate accounting manual for constituencies and establish constituencies accounting unit at Headquarters
- h) Train staff and key stakeholders on public finance management and reporting
- i) Prepare/review annual financial statements and implement audit recommendations
- j) Receive and review financial returns and update the assets register
- k) Establish and operationalize a research and policy Unit and establish and operationalize a resource centre
- l) Establish a Risk management Unit, conduct risk assessment and carryout Risk Response planning
- m) Develop a disaster preparedness and management manual and train constituencies on Disaster Risk Reduction and Response Mechanism
- n) Develop & issue guidelines on community managed disaster risk reduction (CMDRR)
- o) Review and implement an organizational structure, conduct work load analysis to establish optimal staffing levels and recruit more staff
- p) Conduct Training Needs Assessment and develop and implement an annual training plan
- q) Conduct work environment survey and employee satisfaction survey and implement feasible recommendations
- r) Acquire additional office space
- s) Develop and issue guidelines on public participation & identification of projects; submission of project proposals; Projects and release of funds; Project funds absorption; Management of incomplete & on-going projects during NG-CDFCs transitions and Residual Projects
- t) Develop collaboration framework for the NG-CDFCs and government technical officers
- u) Establish a liaison office to enhance operations of the Board, Ministries and National Assembly
- v) Train NG- CDFCs
- w) Develop and implement policy on documentation and dissemination of constituency best practices
- x) Evaluate constituencies' performance, publicize top performers and showcase the best practices in implementation of projects

- y) Implement Mwongozo code of governance and ensure compliance with all tendering and procurement requirements
- z) Facilitate access to information and publish constituency financial and project reports on a timely basis
- aa) Convene regular stakeholder forums/awareness campaigns, open days and road shows and participate in Corporate Social Responsibility activities
- bb) Update the Boards website and social media presence and participate in relevant television and radio programmes to enhance the profile of the NG-CDF
- cc) Review and implement service charter and Corporate Identity Manual
- dd) Participate in relevant exhibitions and conferences and organize media events (press conferences, media tours, workshops, breakfast meetings) to clarify and explain issues to the media on newsworthy events
- ee) Carryout customer satisfaction survey and implement feasible recommendation s

KEY STRATEGIC PRIORITIES

- Improve the implementation, Monitoring and Evaluation projects
- Come up with strategies to develop and turnaround for under-performing Constituencies
- Ensure timely availability and disbursement of Funds to Constituencies
- Develop and implement guidelines for project implementation that are in line with existing procurement laws and regulations
- Develop sound financial controls in line with Finance management Act of 2012 and in compliance with Office of the Auditor General Requirements

(c) Key Management

The *NGCDF's* day-to-day management is under the following key organs:

- NGCDF Board

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag.Chief Executive Officer	Yusuf Mbuno

(d) Fiduciary Oversight Arrangements

- Finance and Administration Committee of the Board
- Audit and Risk Management Committee of the Board

(e) Registered office

NGCDF headquarters
Harambee Plaza Building
10th Floor
Telephone No. 2230015/19/27
Haile Sellasie/Uhuru Highway Junction.
P.O. Box 46682 – 00100 NAIROBI

(f) Contacts

Telephone:(020) 2230015/9,2230027
E-mail: info@NGCDF.go.ke
Website: www.NGCDF.go.ke

(g) NGCDF Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

Kenya Commercial Bank Ltd
Kipande House
Kenyatta Avenue

P.O. Box 30012 - 0010

NAIROBI

Co-operative Bank of Kenya

Cannon House

Parliament Road

P.O. Box 5772-00200

Independent Auditors

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O.Box 30084

GOP 00100

Nairobi, Kenya

(h) Principal Legal Adviser

The Attorney General

State Law Office




Harambee Avenue




P.O. Box 40112


City Square 00200

Nairobi, Kenya




II. THE BOARD OF DIRECTORS





	NAME	ACADEMIC	APPOINTMENT
1	 Hon Peter Mbau Elias –Chairman D.O.B- March 29, 1961	Masters degree in Economics and Public Finance	Appointed 01.01.2015 - 06.2.2017 (resigned from chairmanship)
2	 Mumbi Githaiga Mahinda Alternate director to Attorney General D.O.B.-March 13, 1975	Masters in Law	Advocate Appointed 07.04.2014
3	 Kennedy Ogendi Ondieki Alternate Director to the Cabinet Secretary , the National Treasury D.O.B.-1967	Masters	Appointed 14.10.2015



	<p>Joseph Njihia Mukui Alternate Director to the Principal Secretary , State Department of Planning and Statistics , Ministry of Devolution and Planning Chief Internal Auditor 4 D.O.B.- June 16, 1958</p>	<p>Masters</p>	<p>Has been serving for over five years, reappointed on 07.01.2016</p>
	<p>Robert Nyariki Momanyi Masese Alternate Director to the Principal Secretary Ministry of Education 5 D.O.B.- May 19, 1956</p>	<p>Masters</p>	<p>Appointed 26.02.2016</p>
	<p>Yusuf Mbuno Ag. Chief Executive Officer 6 D.O.B.-April 27, 1966</p>	<p>Master of Arts – Economics Bachelor of Arts – Economics Certificate in Project Planning & Management</p>	<p>Appointed in 2012</p>

7	 <p>Simon Ndweka Corporation Secretary D.O.B-December 24, 1974</p>	<p>Masters in Business Administration- Strategic Management CPA K CPS Final</p>	<p>Appointed 01.03.2014</p>
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III. MANAGEMENT TEAM

	NAME	ACADEMIC	PROFESSIONAL
1	 Yusuf Mbuno Chief Executive Officer	Master of Arts – Economics Bachelor of Arts – Economics	<ul style="list-style-type: none"> • Certificate in Project Planning & Management
2	 Simon Ndweka Corporation secretary	Master of Business Administration Bachelor of Laws	<ul style="list-style-type: none"> • CPA K • CPS Final
3	 Venazio Gachara Senior Accountant	Master of Business Administration	<ul style="list-style-type: none"> • CPA K

4	 Alice Wachira Chief Internal Auditor	Master of Business Administration – Finance & Banking	<ul style="list-style-type: none"> • CPA K CPS Final
5	 Anne Thumbi Senior Manager Human Resource	Master of Science – Human Resource Management Bachelor of Science – Communication & PR	<ul style="list-style-type: none"> • Higher Diploma – Human Resource Management • Diploma – Personnel Management
6	 Brenda Onyino Senior Manager Communication	Master of Arts – Communication Bachelor of Arts in Communication – PR & Business Administration	Diploma in Project Management
7	 Jack Odhoch Chief ICT Officer	Master of Science – Information Systems Bachelor of Science	<ul style="list-style-type: none"> • Certified Professional – Oracle • CCNSP • Prince 2 and Web development

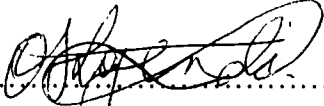
<p>8</p>	 <p>Shafee Yaqub Procurement Officer</p>	<p>Msc Procurement & Logistics Bachelor of Commerce - Finance</p>	<ul style="list-style-type: none"> • CIPS • Diploma Purchasing & Supply
<p>9</p>	 <p>Elizabeth Twili Program Manager - Cordination</p>	<p>Master of Education – Economics & Education Bachelor of Education – Arts</p>	<ul style="list-style-type: none"> • Diploma in Management – Project Planning

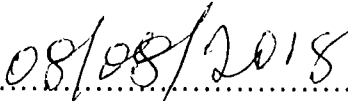
IV. CHAIRMAN'S STATEMENT

The Board has the responsibility of preparing financial statements that give a true and fair view of the state of affairs of the Fund at the end of the financial year and also the Income and Expenditure Statement for the same period. The National Government Constituencies Development Fund Act 2015 requires that the Directors do ensure that proper books of accounts and records are maintained which disclose with reasonable accuracy at any time the financial position of the Fund and ensure that the financial statements comply with the establishing Act. They are also responsible for safeguarding the assets of the Fund and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors regularly meet to monitor the Fund's financial performance. Specific review of management performance and operational issues are undertaken through Committees, which make suitable recommendations to the Board of Directors.

Nothing has come to the attention of the Directors to indicate that the Constituencies Development Fund will not remain as a going concern for at least the next twelve months

.....

Kennedy Ondieki
Board Member

Date.....


V. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Fund was initially established in 2003 as the Constituencies Development Fund (CDF). The name was changed to the National Government Constituencies Development Fund (NG-CDF) following the enactment of the NG-CDF Act, 2015 which was meant to align the Fund with the Constitution of Kenya.

Between 2003/2004 and 2016-2017, the fund has been allocated a total of Kes.232.179 billion. Kes.228.516 being statutory allocation while Kes.3.663 billion was conditional grant for completing stalled projects. Out of the funds allocated, Kes.9.05 billion was allocated for running the Board secretariat while the balance of Kes.223.129 billion was allocated for disbursement to constituencies.

The Board secretariat had a budget 2,835,655,813 in Financial Year 2016/2017 to meet the proposed expenditure on Personnel emoluments, Operations and maintenance. The breakdown of revenue consists of Kes 1.25 Billion being 5% of the 25 Billion allocated to NGCDF in Financial Year 2016/2017, and Kes 45 Million to be generated as Appropriation in Aid (AIA). The budget deficits of Kes. 1,540,655,813 as a result of activities not carried out during the previous year and whose expenditure have been re-voted, will be catered for from the unutilized funds brought forward from last fiscal year.

The 2016-2017 Budget was anchored on five key strategic objectives:-

- (i) Improve of operational efficiency and effectiveness
- (ii) Strengthen institutional capacity
- (iii) Ensure efficient and effective project management
- (iv) Enhance Good Governance
- (v) Promote effective communication and appropriate partnerships

To achieve the above strategic objectives, the Board put in place key measures to address core areas including continued automation of Boards operation, implementation of quality management systems, improve accounting systems, strengthen audit and risk management and strengthen planning and research capacity to support policy formulation. The Board has also put measures to improve management of funds by undertaking Routine Audit at the constituencies, Monitoring and Evaluation of projects, cascading performance contracts to National Government Constituency Development Fund Committees and putting in place sound financial reporting systems to conform to the requirements of the Constitution of Kenya.

During the year, the Board launched its five years strategic plan which was to provide the strategic direction for the next five years by identifying measures that supports realization of the Fund's vision. The board also received 9001:2008 ISO Certifications and therefore commits to continuous improvement of its systems to maintain certification and carry out recertification. In order to improve on service delivery to the public at the constituency, the Board evaluated 2015-2016 performance targets and cascaded 2016/2017 performance targets to the National Government Constituencies in the 2nd and 3rd quarter of financial year 2016-2017 with an objective of enhancing spirit of accountability. Evaluation of 2016/2017 performance contract is expected to be done in the 2nd quarter of financial year 2017-2018.

To improve on management of funds, the Board undertook Audit in more than 148 and inspection of books of accounts in 75 constituencies to ensure effective administration of public funds and to identify how processes can be enhanced to improve internal controls. The Board also continued implementation of automation of the system by rolling out National Government Constituencies Development Fund Management Information System (NG-CDFMIS) to 70 constituencies in the 3rd quarter of the Financial Year. Roll out to the remaining 220 constituencies is expected to be undertaken in Financial Year 2017/2018.

In order to improve the visibility of NG-CDF projects at the grass root, the Board undertook public awareness campaigns, public education, infomercials advertisements and media campaigns in three counties. The Board also participated in trade shows and exhibitions in Kisumu, Nairobi, Kitale, Eldoret, Kakamega, Machakos, & Nakuru. To show case best practices in implementation of the projects, the Board undertook Corporate Social Responsibility projects in the constituencies.

Various training activities aimed at improving and enhancing the effectiveness as well as efficiency of the fund was undertaken in F/Y 2016/2017. The trainings included: training of FAM on Project Management, Senior Management Courses, Strategic management Courses and training on financial management. Further training, including training of Board directors and staff on monitoring and Evaluation, preparation of financial statements, project management and training on cross cutting issue will be undertaken in 2017/2018 financial year.

The Board in consultation with MODP will also develop Monitoring and Evaluation system that will provide a framework for monitoring and evaluation of projects implemented under the Fund.

Finally, this year the Board has prepared financial statement for the secretariat based on 5% of the allocation and separate 290 financial statements for the constituencies on the remaining 95%.



Yusuf Mbuno

Ag. Chief Executive Officer

Date. 08/08/2018

VI. CORPORATE GOVERNANCE STATEMENT

During the year under review, there were eighteen (18) meetings of the Board held. The attendances of the said meetings by directors were as follows:

	Name of the Director	Number of meetings attended out of 18
1.	Hon Elias Mbau	14 (resigned on February 06, 2017)
2.	Mr. Robert Masese	14
3.	Mr. Joseph Mukui	18
4.	Ms. Mumbi Mahinda	18
5.	Mr. Kennedy Ondieki	15
6.	Mr Yusuf Mbuno (Ag. CEO)	18

In its operations, the Board is aided by a Strategic plan (2016-2022). Coupled with the Strategic Plan, the Board has a Charter which is a guide that stipulates, amongst others, the individual directors obligations and commitment towards the work of the Board. The Board charter is review periodically to suit the changing circumstances. The Board Charter is supplemented by the Code of Governance of State Corporations (*Mwongozo*).

The members of the Board are proposed by the Cabinet Secretary, parent Ministry (Devolution and Planning) and Approved by the National Assembly, and thereafter appointed by the Cabinet Secretary. The Members of the Board serve for a period of three (3) years, renewable once. Section 19 of the National Government Constituencies Development Fund Act stipulates removal of a member thereof. Amongst reasons for removal of a Board member are:

1. Serious violation of the Constitution or any other Laws;
2. Gross misconduct, whether in performance of the member's or Office holder's functions or otherwise;
3. Physical or mental incapacity to perform the functions of office;
4. Incompetence;
5. Bankruptcy; or
6. Engaging in active politics.

The removal of a member on any of the above grounds is initiated by sending a petition to the National Assembly Select Committee on NGCDF. A member of the Board may be suspended pending hearing of a petition. The National Assembly Committee hears a petition and makes final determination on the matter.

Under the NGCDF Act of 2015, the functions of the Board are listed under Section 16 thereof. The functions are as follows:

- a. Ensure timely and efficient disbursement of funds to every constituency
- b. Ensure efficient management of the Fund;
- c. Consider project proposals submitted from various constituencies in accordance with the Act, approve for funding those projects proposals that are consistent with this Act and send funds to the respective constituency fund account of the approved projects;
- d. Co-ordinate the implementation of projects at the inter-constituency level;
- e. receive and address complaints that may arise from the implementation of the Act;
- f. Encourage best practices in the implementation of projects; and
- g. Administer the funds and assets of the Board in such manner and for such purpose as shall promote the best interest of the Board in accordance with the Act to ensure efficient management of the Fund.

Upon appointment, the Board members are undertaken through induction training, besides being sponsored to attend governance related trainings, lasting not less than one week. The current Board members were attended training on the Code of Governance of State Corporations (*Mwongozo*). Regarding the Board's performance, the Board is evaluated annually. The current Board members were evaluated in September 2016, facilitated by State Corporation Advisory Committee (SCAC). Results therefrom shared with the Ministry.

During every meeting of the Board, all directors are required to declare conflict of interest. This is usually and always recorded in the minutes. The Board maintains a conflict of Interest register as required by Leadership and Integrity Regulations, 2015. Regarding Board's remuneration, Directors are always paid sitting allowances whenever they attend a meeting or any other Board's function. While attending Board's functions outside the station, Directors are paid Daily Subsistence Allowances, where applicable. Applicable rates are as issued by relevant government agencies. In terms of Governance Audit, Mwongozo requires that the exercise should be conducted once every year. The exercise can only be facilitated by

accredited officers. During the year under review, no governance audit was undertaken as there were no accredited governance auditors. This fact was well communicated by SCAC. The Board shall, however, continue to observe and enforce set governance standards in its operations. The Board shall continually improve of its performance with view to achieving the strategic objectives, effectively and efficiently.

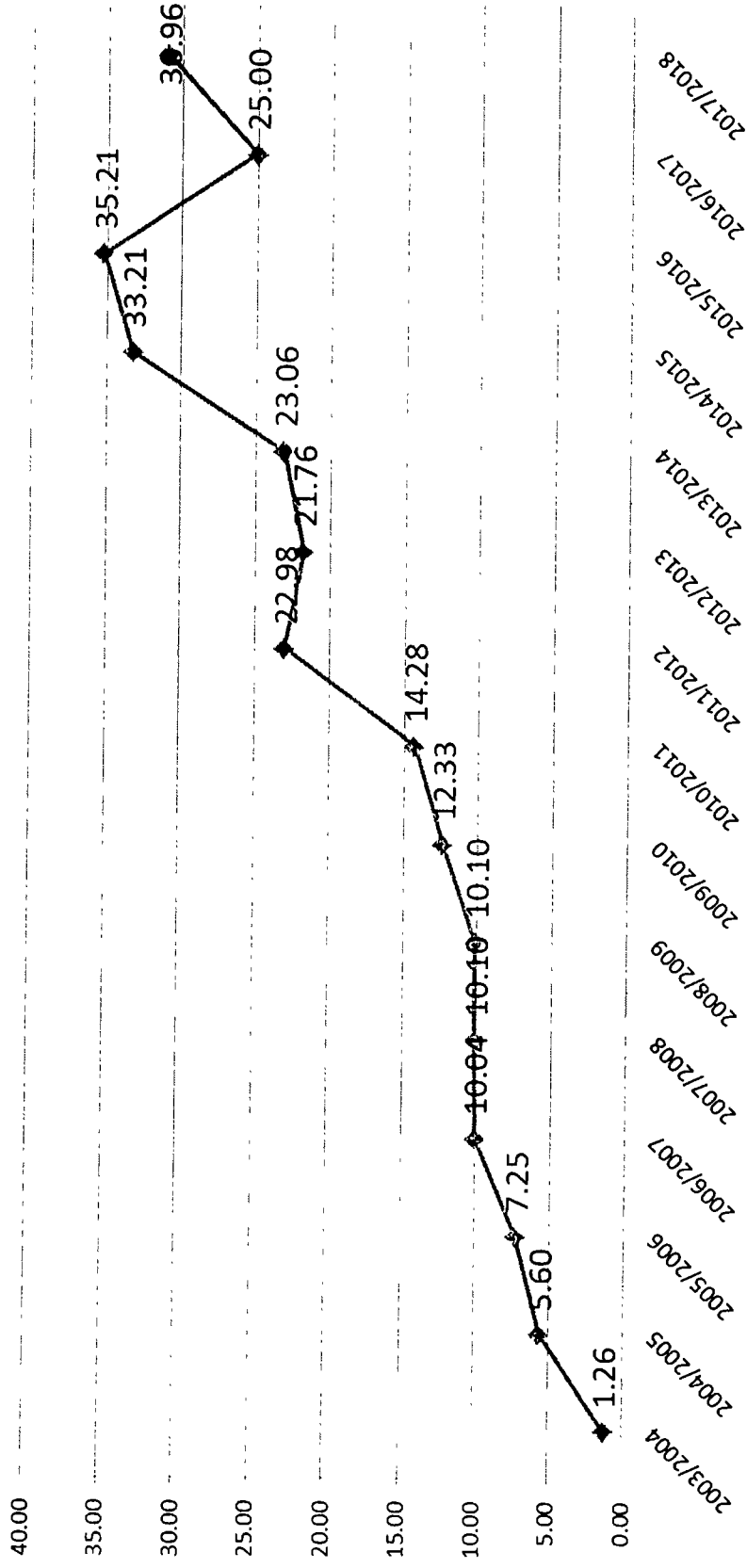
VII. MANAGEMENT DISCUSSION AND ANALYSIS

A. Performance Status since Inception of the Fund

The Fund has in its 14 years of existence for performance remarkably in terms of delivering its core mandate. One of the key mandates of the Board is to ensure timely and efficient disbursement of funds to all the constituencies. By end of 2016/17, the government had allocated a total of Kes. 232.184 billion to the Fund for development programmes since inception. The allocation has been increasing steadily from Kes. 1.26 billion in 2003/04 to Kes. 35.213 billion in 2015/16. In 2015/16 FY the allocation was revised downwards from 35.505 billion to Kes. 25 billion following a high court decision. In the 2017/2018 FY the government allocated Kes 30.958 billion to the fund hence brings the total to Kes. 263.14 billion as shown in the table below;

S.NO	FINANCIAL YEAR	AMOUNT ALLOCATED TO THE FUND (Kes in Billions)
1.	2003/2004	1.260
2.	2004/2005	5.600
3.	2005/2006	7.245
4.	2006/2007	10.038
5.	2007/2008	10.100
6.	2008/2009	10.100
7.	2009/2010	12.329
8.	2010/2011	14.283
9.	2011/2012	22.978
10.	2012/2013	21.763
11.	2013/2014	23.062
12.	2014/2015	33.213
13.	2015/2016	35.213
14.	2016/2017	25.00
15.	2017/2018	30.958
	Totals	263.14

NATIONAL GOVERNMENT- NC-CDF BOARD (SECRETARIAT) FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017



The Board has successfully managed to run a unique project model, first of its own in the public sector, characterized by minimum administrative cost and no provisions for projects operational costs. Projects are run by the community members, a key component of project sustainability. The projects are identified by the community members who also constitute the project management committees that implement and sustain the projects with technical support of relevant government departments.

By end of 2016/2017 financial year, the Board had disbursed Kes 218.215 billion to the constituencies (the number of constituencies increased from 210 in 2013 to 290). These funds have been channelled to the grassroots supported projects with practical bearing on the resident communities' welfare.

B. Funds allocation 2016/17

The Board was allocated Kes 25Billion in financial Year 2016/2017. The Board had also pending receipts from National Treasury amounting to Kes 4,976,750,000 relating to financial Years 2011/2012, 2013/14 and 2014/15bythe end of 2015/2016 Financial Year. This totalled to Kes 29,976,750,000 expected to be received in financial year 2016/2017.

However, in a preliminary ruling in High Court on the petition against NGDCF, the Cabinet Secretary in charge of National Treasury was barred from releasing to the National Government Constituencies Development Fund any amount exceeding Kes 25,000,000,000 during financial year 2016/2017 pending hearing and disposal of the Petition. Due to this court ruling, the Board has only received 25 Billion allocated in F/Y 2016/2017.The outstanding arrears of Kes 4,976,750,000is still pending to date. Each constituency was allocated Kes/ 81,896,551.72 for the 2016/17 FY.

Despite the challenges in funding, the Board has been able to disburse funds received to the constituencies with respect to their 2016/2017 allocation as follows:

- i. One hundred sixteen (116) constituencies have received full allocation amounting Kes 9,499,999,997
- ii. Fifty eight (58) constituencies have received between 90% and 99% of their 2016/2017 allocation amounting of Kes 4,586,201,775
- iii. Sixty four (64) constituencies have received between 51% and 89% of their 2016/2017 allocation amounting to Kes 3,332,333,102
- iv. Forty four (44) constituencies have received 50% of their 2016/2017 allocation amounting to Kes 1,801,724,169
- v. Three (3) constituencies have received statutory allocation amounting to Kes 62,284,483
- vi. Five (5) constituencies have received 2016/2017 emergency amounting to Kes 20,474,138
- vii. Kes 1,250,000,000 has been disbursed to the Board Secretariat for financial year 2016/2017 for administrative purposes
- viii. The Board also disbursed Kes 4,446,982,332 out of the funds received to the constituencies with respect to the previous year's allocation.

C. Key Achievements for 2016/2017

1. One of the key mandates of the Board is to disburse funds to constituencies. The Board receives and reviewed project proposals from all the 290 constituencies. The Board disbursed a total of Kes. 28,837,556,199.60 for the contract period.
2. The NG-CDF Board Five year strategic plan 2016/17-2020/21 was prepared and launched in August 2017. The strategic plan serves as the medium-term plan for the Board from 2017/2017 to 2020/2021 providing guidance in all the planning and operations of the organization.
3. The board signed its performance contract with the ministry of devolution and planning in March 2017. The Board also cascaded the 2016/17 performance contract to 290 constituencies. The Board also evaluated the 2015/16 performance contract for the 290 constituencies which also involved rating the constituencies. This was aimed at ensuring improved service delivery by holding CDFCs accountable for their activities at the constituency level CDFCs were evaluated on 5 predetermined indicators, namely: Financial, Service Delivery, Operational, Dynamic and Non-Financial indicators. The constituencies were evaluated on a scale of 1-5 as per the standards of evaluation of Performance Contracts used in the Government of Kenya.
4. The Board Trained Fund Account Managers and Chairpersons from all the 290 Constituencies on Project Management and on cross cutting issues such as Alcohol and Drug Abuse, HIV/AIDS, Corruption Prevention, Disaster Management.
5. The NG- CDF Board was awarded the ISO certification 9001:2008 in August 2017. This ensures there is uniformity across the standard procedures of operations.
6. Supported education sector: More than 51% of the funds in the constituency are allocated to the education sector through bursaries and construction and renovation of infrastructure. This has helped in achievement of:
 - Increase in transition rate from primary to secondary schools through construction on new secondary schools, especially the mixed day secondary schools
 - Increase in retention rate at secondary and tertiary level through bursary programmes
 - Increased enrolment and retention at primary school level through construction on new and renovation of existing primary schools;
 - Enhanced technical skills necessary in the job market through construction of technical institutes (130 done in collaboration with ministry of education) & Medical Training Colleges (30);
 - Enhanced technical skills by sponsoring students for technical course, this includes eight (8) pilots fully sponsored by NG-CDF to Commercial Pilot Licence level;
 - Supported success of the government's Free Primary and secondary Education programmes by providing facilities and bursaries to poor students;
 - Reduced the mwananchi burden on Harambee mostly for raising school fees of needy students and construction of schools, which has increased the households' disposable income;

7. NG-CDF has significantly supported security Sector:

The funds were used for construction or renovation of national administration offices, police stations, police posts and staff houses. The NG-CDF funds were also used to light up slum areas

through the construction of high mast security lights, hence significantly reducing cases of muggings in areas inhabited by low income dwellers.

These projects helped to create secure environment for safe living and conducting business.

8. Since 2013/2014 financial year, the Board has been preparing separate annual accounts for each constituency and submitting the same to the Auditor General by 30th September every year as required by the law. This has contributed to improved accountability in the management of the Fund.

D. Key challenges encountered in the management of the Fund

i. Composition of the Board

Since September 2014 the NG-CDF Board is not fully constituted following expiry of the term for the 2nd Board, which served from 2011 to 2014. The Board has only managed to drive its agenda through directors representing the Attorney General and Principal Secretaries in the ministries of Devolution & Planning, National Treasury and Education Science & Technology. The only independent director in the Board who acted as the chair served from January 2015 and resigned in February 2017. Challenges of attaining quorum have adversely affected Board operations.

ii. Lack of substantive Chief Executive Officer

The position fell vacant in August 2011 and an acting Chief Executive Officer appointed by the Ministry of Devolution and Planning with effect from 1st September 2011. Since then, the process of appointing a substantive Chief Executive Officer has never been completed and this has affected the smooth operations of the Board.

iii. Shortage of staff in key position

The Board faces serious staff shortage in critical positions including Heads of Department, where 70 per cent of them are held in acting capacity since 2013.

iv. Legal challenges

The Board operations have been adversely affected by litigations some challenging the Fund existence. This has affected the long term planning and performance. For instance during the 2016/2017 FY, the High Court barred the cabinet secretary to the National Treasury from releasing fund to the Board in excess of Kes 25 billion instead of the allocated Kes 35.505 billion. This negatively affected the amount of funds disbursed to constituencies.

v. Discrepancy between the annual allocation and receipts

Over the years, there are gaps between what is allocated and what is received which affects the operations. Once funds are allocated they finance constituency projects. Therefore any gap between allocation and receipts negative affects through unmet community expectations and subsequent allocations go towards clearing the balance and affects meeting targets. There is therefore need to fill the gap by allocating the money amounting to Kes. 4.79 billion. The amount is as result of gaps as shown below:

S.NO	FINANCIAL YEAR	AMOUNT ALLOCATED TO THE FUND (Kes in Billions)	DISBURSEMENT TO NG-CDF BOARD (Kes. in Billions)	DISCREPANCY (Kes. in Billions)
1.	2011/2012	22.978	22.436	0.541
2.	2013/2014	23.062	20.933	2.129
3.	2014/2015	33.213	30.906	2.307
Totals		79.253	74.275	4.979

vi. **Incomplete projects falling under devolved functions**

The ruling of high court in February 2015 declared the then CDF Act 2013 unconstitutional on the basis that among others the Fund being a national government initiative cannot fund devolved functions. This led to enactment of NG-CDF Act 2015 which clearly specifies the eligible projects as the ones that fall within the national government functions. This affected projects initiated in the devolved sectors some of which remain incomplete up to date. The most affected projects are in health and water sectors. If left incomplete, it will lead to waste of funds, unmet community demand and escalation of cost in case of completion. There is need for national government to come up with a mechanism to complete the projects in a way that does not offend the constitution.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The NGCDF Board recognizes its responsibility of being environmentally responsible by complying with all environmental laws at all phases of its activities. The Board is responsible for ensuring that the policy on environmental sustainability is implemented and that the natural and man-made resources are protected through the implementation of proactive environmental programs.

In line with this, the NGCDF Board focuses on:

- Maintaining good environmental system that is suitable to the nature, scale and environmental impacts of its operations and related activities.
- Making environmental concerns as an integral part of its planning and decision making process by committing sufficient resources in order to implement effective environmental and sustainability programs.
- Providing the necessary training for its employees to ensure that they have enough knowledge and capacity to conduct operations in a manner that is consistent with sound environmental practices while at the same time encouraging employees to be involved in environmental action.
- Avoiding, minimizing and mitigating any adverse environmental impacts caused by its operations.
- Adopting the highest standards in all areas of operations, meeting and exceeding all relevant requirements.
- Assessing its operational activities and identifying areas where it can minimize waste and negative environmental impacts through careful and efficient use of all materials and energy by promoting the use of environmentally friendly technologies.
- Promoting environmental awareness among its employees by encouraging them to work in an environmentally responsible manner.
- Continually assessing the environmental impact of all its operations.

To achieve the 2016-2017 objectives, the Board undertook several activities aimed at enhancing environmental education, awareness and Sensitization on environmental sustainability relevant to the institutional mandate. The Board carried out environmental activities in the following counties: Nyeri County-Othaya, Nyeri town and Mathira constituencies, Murang'a County- Kangema, Mathioya, Kiharu constituencies, Kirinyaga County- Mwea and Ndia constituencies, Embu County-Manyatta constituency, Nairobi County- Ruaraka Constituency.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the NGCDF Board affairs.

Principal activities

The principal activities of the Board continue to be:

- (a) Ensure timely and efficient disbursement of funds to every constituency;
- (b) Ensure efficient management of the Fund;
- (c) Consider project proposals submitted from various constituencies in accordance with the Act. Approve for funding those projects proposals that are consistent with this Act and send funds to the respective constituency fund account of the approved projects;
- (d) Co-ordinate the implementation of projects at the inter-constituency level;
- (e) Receive and address complaints that may arise from the implementation of the Act;
- (f) Encourage best practices in the implementation of projects;
- (g) administer the funds and assets of the Board in such manner and for such purpose as shall promote the best interest of the Board in accordance with the Act to ensure efficient management of the Fund; and
- (h) Perform such other duties as the Board may deem necessary from time to time for the proper management of the Fund.

Results

The results of the entity for the year ended June 30, 2017 are set out on page 32 to 47 of this report

Directors

The members of the Board of Directors who served during the year are shown on page VII and VIII of this report.

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

Corporate Secretary

Nairobi

Date:.....

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, section 14 of the State Corporations Act and Section 39 (4) of the NGCDF Act 2015 require the Directors to prepare financial statements in respect of NGCDF, which give a true and fair view of the state of affairs of the NGCDF at the end of the financial year/period and the operating results of the NGCDF for that year/period. The Directors are also required to ensure that the NGCDF keeps proper accounting records which disclose with reasonable accuracy the financial position of the NGCDF. The Directors are also responsible for safeguarding the assets of the NGCDF.

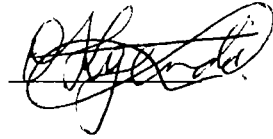
The Directors are responsible for the preparation and presentation of the *NGCDF's* financial statements, which give a true and fair view of the state of affairs of the *NGCDF* for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the NGCDF; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *NGCDF*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *NGCDF's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) accrual, and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *NGCDF's* financial statements give a true and fair view of the state of *NGCDF's* transactions during the financial year ended June 30, 2017, and of the *NGCDF's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *NGCDF*, which have been relied upon in the preparation of the *NGCDF's* financial statements as well as the adequacy of the systems of internal financial control.

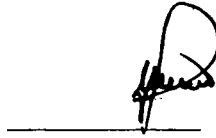
Nothing has come to the attention of the Directors to indicate that the *NGCDF* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The NGCDF financial statements were signed on behalf of the Board by:



Kennedy Ondieki
Board Member



Yusuf Mbuno
Ag. Chief Executive Officer



Venazio Gachara
Head of Finance
ICPAK No: 12156

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND BOARD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund Board set out on pages 32 to 46, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, 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 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 the National Government Constituencies Development Fund Board 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 (Accrual Basis) and comply with the Public Finance Management Act, 2012 and National Government Constituencies Development Fund (Amendment) Act, 2015.

In addition, as required by Article 229(6) of the Constitution, 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 public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of financial position as at 30 June 2017 reflects cash and cash equivalent balance of Kshs.1,564,762,110. However, the following unsatisfactory issues have been observed:

- (i) The bank reconciliation statement as at 30 June 2017 for KCB Bank Account has long outstanding payments in the bank statements and not

reflected in cash book amounting to Kshs.32,589,080.60. The details of these payments are as indicated below;

- An amount of Kshs.32,585,558 in respect of monies that were fraudulently withdrawn from the Board`s bank account in the year 2011/2012 and has not been recovered to date.
 - A bank reconciliation error dating back to year 2007 of Kshs.3,522.45 that has never been investigated or resolved to date.
- (ii) The cash and cash equivalent balance of Kshs.1,564,762,110 also include an amount of Kshs.332,537,617 held at Chase Bank Limited as an Investment. However, Chase Bank Limited was placed under statutory management by Central Bank of Kenya on 7 April 2016 and the realization of this amount is contingent upon the bank reverting back to its normal operations.

Consequently, it has not been possible to confirm the accuracy and validity of cash and cash equivalent balance of Kshs.1,564,762,110 as at 30 June 2017.

2. Trade and Other Payables

Trade and other payables balance of Kshs.124,173,750 as reflected in the statement of financial position excludes a brought forward liability of Kshs.14,917,200 in respect of Stimulus Project Management Committee(SPMCs) and Constituency Project Tender Committee(CPTCs) which were operating under the Economic Stimulus Programme(ESP). No documentation has been provided in support of the authority to write off the liability. Consequently, the payables balance of Kshs.124,173,750 as at 30 June 2017 is not 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 Board 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 judgement, were of most significance to the audit of the financial statements for the current year. 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.

Responsibilities of Management and those Charged with Governance 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 (Accrual Basis) and for such 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.

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 either intends 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.

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 of Kenya. 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 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.

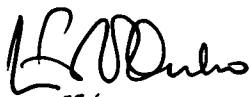
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 to cease sustaining 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 of the entities or 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

13 July 2018

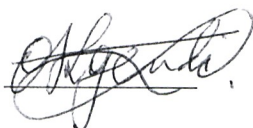
XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

		2016/2017	2015/2016
Revenue from non-exchange transactions		Kes	Kes
GOK Grants	3	1,250,000,000	1,760,650,000
Revenue from exchange transactions			
Interest Earnings	4	64,429,842	53,799,356
Other Income	4	75,400	-
		64,505,242	53,799,356
Total revenue		1,314,505,242	1,814,449,356
Expenses			
Employee costs	5	803,385,224	786,150,699
Board Expenses	6	18,972,384	28,000,808
Depreciation and Amortization expense	7	30,946,669	34,311,225
Repairs and maintenance	8	13,483,380	11,962,568
Contracted services	9	22,615,138	3,231,520
General expenses	10	669,043,550	427,085,967
Total expenses		1,558,446,345	1,290,742,787
(Deficit)/Surplus before Taxation		(243,941,102)	523,706,569
Taxation (Exempt)	21	-	-
(Deficit)/Surplus for the period		(243,941,102)	523,706,569

XII. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2017

	Note	2016/2017	Restated 2015/2016	2015/2016
		Kes	Kes	K
Assets	Notes			
Current assets				
Cash and cash equivalents	11	1,564,762,110	1,898,987,630	1,898,987,630
Receivables	12	93,390,661	74,492,146	74,492,146
		1,658,152,772	1,973,479,776	1,973,479,776
Non-current assets				
Property plant equipment	13	113,445,403	121,904,639	121,904,639
Intangible Asset	14	3,883,733	5,548,189	5,548,189
		117,329,135	127,452,828	127,452,828
Total assets		<u>1,775,481,907</u>	<u>2,100,932,604</u>	<u>2,100,932,604</u>
Liabilities				
Current liabilities				
Payables	15	130,355,319	64,045,152	78,962,352
Employee benefit obligation	16(a)	5,046,949	6,034,949	6,034,949
		135,402,268	70,080,101	84,997,301
Non-current liabilities				
Non-current employee benefit obligation	16(b)	68,559,182	182,839,791	182,839,791
Loss Provision	17	-	-	32,551,152
		68,559,182	182,839,791	215,390,943
Total liabilities		<u>203,961,449</u>	<u>252,919,892</u>	<u>300,388,244</u>
Net assets		<u>1,571,520,458</u>	<u>1,848,012,712</u>	<u>1,800,544,360</u>
Represented by				
Accumulated Reserves		<u>1,571,520,458</u>	<u>1,848,012,712</u>	<u>1,800,544,360</u>

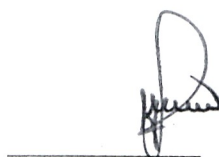
The Financial Statements set out on pages 32 to 47 were signed on behalf of the Board of Directors by:



Kennedy Ondieki
Board Member

Date

08/08/2018



Yusuf Mbuno
Ag. Chief Executive Officer

Date

08/08/2018



Venazio Gachara
Head of Finance

Date

ICPAK No: 12156
08/08/2018

XIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017

Revenue Reserve				
	2016/2017	Restated 2015/2016	2015/2016	
	Kes	Kes	Kes	
Reserves at the Beginning of the Year	1,848,012,712	1,255,586,835	1,255,586,835	
(Deficit)/Surplus for the Year	(243,941,102)	523,706,569	523,706,569	
Prior year adjustments	(32,551,152)	68,719,308	21,250,956	
Reserves at the End of the Year	1,571,520,458	1,848,012,712	1,800,544,360	

XIV. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2017

		2016/2017	Restated 2015/2016	2015/2016
		Kes	Kes	Kes
Surplus for the year		(243,941,102)	523,706,569	523,706,569
Add Depreciation & Amortization	7	30,946,669	34,311,225	34,311,225
Cash from Operating Activities		(212,994,433)	558,017,794	558,017,794
Changes in Working Capital				
Increase in Payables	15	66,310,167	51,217,332	51,217,332
(Decrease)/Increase in Employee benefit obligation	16(a)	(988,000)	2,778,149	2,778,149
(Decrease)/Increase in Non Current Employee obligation	16(b)	(114,280,609)	68,976,453	68,976,453
Receivables	12	(18,898,515)	(1,203,879)	(1,203,879)
Loss provision	17		-	32,551,152
Net Cash flow Used in Operating activities		(67,856,958)	121,768,055	154,319,207
Cash flow from Investing activities				
Purchase of Property Plant Equipment	13	(20,822,976)	(31,106,780)	(31,106,780)
Net Cash flow Used in Investing activities		(20,822,976)	(31,106,780)	(31,106,780)
Net (Decrease)/Increase in Cash & Cash equivalents		(301,674,367)	648,679,069	681,230,221
Cash & Cash Equivalent at start of the year		1,898,987,630	1,196,506,453	1,196,506,453
Adjustment (prior year)	17	(32,551,152)	53,802,107	21,250,955
Adjusted Cash & Cash Equivalent at the start of the year		1,866,436,478	1,250,308,561	1,217,757,409
Cash & Cash Equivalent at end of the year	11	1,564,762,110	1,898,987,630	1,898,987,630

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FINANCIAL YEAR 2016/2017	ORIGINAL BUDGET		ADJUSTMENTS		FINAL BUDGET		ACTUAL AMOUNTS		VARIANCE	
	Kes	Kes	Kes	Kes	Kes	Kes	Kes	Kes	Kes	Kes
Revenues										
GOK Grants	1,250,000,000				1,250,000,000		1,250,000,000			-
A-I-A	45,000,000		-		45,000,000		64,505,242			(19,505,242)
Total Income	1,295,000,000		-		1,295,000,000		1,314,505,242			(19,505,242)
Expenses										
Employee costs	1,248,547,279		133,400,000		1,381,947,279		803,385,224			578,562,055
Board Expense	53,000,000		-		53,000,000		18,972,384			34,027,616
General expenses	1,186,283,169		78,695,565		1,264,978,734		669,043,550			595,935,184
Contracted services	51,200,000		(6,400,000)		44,800,000		22,615,138			22,184,862
Repairs and Maintenance	19,200,000		-		19,200,000		13,483,380			5,716,620
Depreciation and Amortization expense	-		-		-		30,946,669			(30,946,669)
Total Expenses	2,558,230,448		205,695,565		2,763,926,013		1,558,446,345			1,205,479,668
Deficit	(1,263,230,448)		(205,695,565)		(1,468,926,013)		(243,941,102)			(1,224,984,911)

NATIONAL GOVERNMENT- NG-CDF BOARD (SECRETARIAT) FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

FINANCIAL YEAR 2015/2016	ORIGINAL BUDGET	ADJUSTMENTS	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE
	Kes	Kes	Kes	Kes	Kes
Revenues					
GOK Grants	1,760,650,000		1,760,650,000	1,760,650,000	-
A-I-A	20,000,000	-	20,000,000	53,799,356	(33,799,356)
Total Income	1,780,650,000	-	1,780,650,000	1,814,449,356	(33,799,356)
Expenses					
Employee costs	1,419,207,218		1,419,207,218	786,150,699	633,056,519
Board Expenses	60,000,000	-	60,000,000	28,000,808	31,999,192
General expenses	912,958,509		912,958,509	427,085,967	485,872,542
Contracted services	103,856,820		103,856,820	3,231,520	100,625,300
Repairs and Maintenance	15,000,000	-	15,000,000	11,962,568	3,037,432
Purchase of Computer Equipment	3,000,000	-	3,000,000	200,000	2,800,000
Purchase of Furniture and Equipment's	20,000,000		20,000,000	9,737,165	10,262,835
Purchase of motor vehicle	24,000,000	-	24,000,000	21,169,615	2,830,385
purchase of software	22,343,000		22,343,000	-	22,343,000
Refurbishment of building	4,000,000		4,000,000	-	4,000,000
Total Expenses	2,584,365,547	-	2,584,365,547	1,287,538,342	1,296,827,205
surplus	(803,715,547)	-	(803,715,547)	526,911,014	(1,330,626,561)

Refer to note 18 for explanatory notes on material variances

NOTES TO THE FINANCIAL STATEMENTS

Following discussions we held with the Public Sector Accounting Standards Board, the NGCDF Board has prepared two separate statements for the Board Secretariat (5% allocation) and the Fund Account at Central Bank of Kenya (CBK). Consequently, the comparative figures for financial year 2015/2016 Board Secretariat financial statements have been restated to reflect the new system of presentation.

In effect, the Board Secretariat (5% allocation) financial statements together with the financials statements of each of the 290 constituencies (95% allocation) constitute mirror statements for the CBK Fund account financial statements.

1. Statement of compliance with IPSAS

The NGCDF's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya Shillings (Kes), which is the functional and reporting currency of the NGCDF and all values are rounded to the nearest shilling. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies applied

a) Revenue recognition

Transfers from other government entities

The receipts/revenue of the Fund consists of at least 2.5% of the total annual ordinary revenue the Government collects in a financial year. Revenue for the secretariat is 5% of the Fund's total allocation and the remaining 95% is disbursed to constituencies to fund various development projects and treated as grants to constituencies.

Revenue is recognized once the National Budget has been approved by Parliament.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the NGCDF. As a result of the adoption of

the accrual basis for budgeting purposes, there are no basis, timing or NGCDF differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Reducing balance method is used in calculating depreciation using the following rates:

Asset category	Rate of depreciation/amortisation
1. Motor vehicles	25%
2. Computers equipment	30%
3. Furniture, Fittings and general equipment	12.5%
4. Intangible assets	30%

d) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The intangible Asset is the NGCDF MIS (Management Integrated System) which is an Enterprise Resource Planning (ERP) tool developed for the Board.

e) Employee benefits – IPSAS 25

Retirement benefit plans

Employees of the Fund’s Secretariat are either on secondment from various ministries or are employed on contract terms and therefore accrue pension /gratuity obligations. The pension obligations for staff seconded from various ministries are remitted monthly to the ministries while gratuity provisions are made for staff on contract.

f) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

g) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The NGCDF based its

assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the NGCDF. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

h) Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date

j) Risk Management Policies – IPSAS 30

This standard requires disclosure of information about the nature and extent of risks arising from financial instruments which includes qualitative and monetary disclosures about exposure to each class of risk and how those risks are managed separately for liquidity, credit and market risk.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Board held in various banks Current account balances Kes 1,564,762,110 as at 30th June 2017 which exposes the Fund to credit risk. The Board's investment policy requires that the call deposits be held in commercial banks that meet all the Central Bank of Kenya regulatory requirements. We carry out regular financial appraisals of the banks to evaluate their strength.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Board had payables of Kes 130,355,319 to suppliers and Kes 68,559,182 provision for gratuity for employees as at 30th June 2017. As per government financial procedures and regulations, the Board do not enter into financial commitments for which funds have not been received. Further, stringent vote control procedures ensure funds committed for a particular purpose whose obligation has materialised are not utilized for any other purpose.

k) Receivables

Outstanding imprest at year end is recognized as sundry debtors. Imprest is managed as per government financial regulations and procedures. Receivables include the sundry debtors and prepayments.

m) Subsequent event – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30 June 2017.

3. Revenue from non-exchange transactions	2016/2017	2015/2016
GOK Grants	1,250,000,000	1,760,650,000
Total	1,250,000,000	1,760,650,000

4. Revenue from Exchange Transactions	2016/2017	2015/2016
Interest Earnings	64,429,842	53,799,356
Other Income	75,400	-
Total	64,505,242	53,799,356

5. Employee Costs	2016/2017	2015/2016
Personnel Emoluments	334,826,685	324,464,864
Other Personnel Emoluments	357,030,471	355,431,541
Temporary Employees	10,261,124	5,103,501
Leave Allowance	-	4,602,000
NSSF paid by employer	924,800	1,508,484
Gratuity & Pensions	100,342,145	95,040,309
Total	803,385,224	786,150,699

6. Board Expenses	2016/2017	2015/2016
Allowances	16,530,544	25,981,768
Other Expenses	2,441,840	2,019,040
Total	18,972,384	28,000,808

7. Depreciation and Amortization	2016/2017	2015/2016
Property Plant Equipment	29,282,212	31,933,430
Intangible Asset	1,664,457	2,377,795
Total	30,946,669	34,311,225

8. Repairs and Maintenance	2016/2017	2015/2016
Equipment	702,415	497,388
Vehicles	6,222,742	8,348,773
Others	6,558,223	3,116,407
Total	13,483,380	11,962,568

9. Contracted Services	2016/2017	2015/2016
Consultancy Services	22,615,138	3,231,520
Total	22,615,138	3,231,520

10. General Expenses	2016/2017	2015/2016
Telephone, Electricity, internet & courier	7,192,368	7,784,945
Travel cost	24,095,026	19,148,869
Daily Subsistence Allowance	110,928,117	61,116,490
Publishing and Printing	11,960,102	5,958,716
Newspapers	913,535	1,161,835
Adverting, awareness and publicity	29,055,776	22,539,846
Corporate Social Responsibilities	160,038,743	55,087,332
Trade shows and exhibitions	9,481,389	11,974,533
Rent	12,605,479	11,077,004
Training expenses	181,017,149	126,004,113
Catering Services	10,303,902	14,768,698
Insurance	61,363,140	59,442,246
General Office Suppliers	16,163,121	16,121,592
Fuel, Oils & Lubricants	7,697,242	5,773,818
Medical, Cleaning, membership, legal, parking	20,046,893	9,125,930
Total	662,861,981	427,085,967

11. Cash and cash equivalent	2016/2017	2015/2016
KCB	38,025,848	49,016,319
KCB (ESP)	32,507,690	21,250,955
Coop Bank	1,079,480,997	1,491,639,494
ABC (Current)	7,081	12,791
FAMILY	-	14
EQUITY	800	1,566,539
EQUITY-Gratuity	79,259,177	-
CHASE	332,529,817	332,537,617
ECO (current)	2,950,701	2,963,901
Total	1,564,762,110	1,898,987,630

12.Receivables	2016/2017	2015/2016
Sundry debtors	31,209,549	20,100,642
Kenyatta National Hospital	250,000	250,000
Mater Hospital	300,000	300,000
Insurance	61,631,112	53,841,504
Total	93,390,661	74,492,146

13. Property, plant and equipment 2016/2017	Motor Vehicles	Computer Equipment	Furniture, Fittings & General Equipment	Total
COST	Kes	Kes	Kes	Kes
1.07.2016	123,638,356	128,545,439	89,374,128	341,557,923
Additions	-	12,627,500	8,195,476	20,822,976
(Disposals)	-	-	-	-
Total	123,638,356	141,172,939	97,569,604	362,380,899
ACCUMULATED DEPRECIATION	-	-	-	-
01.07.16 Accumulated depreciation b/f	82,972,961	104,841,018	31,839,305	219,653,284
Charge for the year	10,166,349	10,899,576	8,216,287	29,282,212
Accumulated Depreciation 30.06.17	93,139,310	115,740,594	40,055,593	248,935,496
NBV 30.06.2017	30,499,046	25,432,345	57,514,011	113,445,403
NBV 30.06.2016	40,665,395	23,704,421	57,534,823	121,904,639

13. Property, plant and equipment 2015/2016	Motor Vehicles	Computer Equipment	Furniture, Fittings & General Equipment	Total
COST	Kes	Kes	Kes	Kes
1.07.2015	102,468,741	128,345,439	79,636,963	310,451,143
Additions	21,169,615	200,000	9,737,165	31,106,780
(Disposals)	-	-	-	-
Total	123,638,356	128,545,439	89,374,128	341,557,923
ACCUMULATED DEPRECIATION	-	-	-	-
01.07.15 Accumulated depreciation b/f	69,417,829	94,681,980	23,620,045	187,719,854
Charge for the year	13,555,132	10,159,038	8,219,260	31,933,430
Accumulated Depreciation 30.6.16	82,972,961	104,841,018	31,839,305	219,653,284
NBV 30.06.2016	40,665,395	23,704,421	57,534,823	121,904,639
NBV 30.06.2015	33,050,912	33,663,458	56,016,918	122,731,289

14.INTANGIBLE ASSET- NGCDF MIS		2016/2017
COST		Kes
1.07.2016		11,322,835
Additions		-
(Disposals)		-
Total		11,322,835
Accumulated Amortisation		
01.07.16 Accumulated Amortisation b/f		5,774,645
Charge for the year		1,664,457
Accumulated Amortisation 30.6.17		7,439,102
NBV 30.06.2017		3,883,733
NBV 30.06.2016		5,548,189

14.INTANGIBLE ASSET- NGCDF MIS		2015/2016
COST		Kes
1.07.2016		11,322,835
Additions		-
(Disposals)		-
Total		11,322,835
Accumulated Amortisation		
01.07.16 Accumulated Amortisation b/f		3,396,850
Charge for the year		2,377,795
Accumulated Amortisation 30.6.17		5,774,645
NBV 30.06.2017		5,548,189
NBV 30.06.2016		7,925,984

15. Payables	2016/2017	Restated 2015/2016	2015/2016
Accounts Payable	2,624,586	8,957,820	8,957,820
Corporate Social Responsibilities	120,251,068	55,087,332	55,087,332
Corporate Social Responsibilities Retention	7,479,665	-	-
Accrued-Economic Stimulus Program	-	-	14,917,200
Total	130,355,319	64,045,152	78,962,352

16(a). Employee Benefit Obligation	2016/2017	2015/2016
Balance at the beginning of year	6,034,949	3,256,800
Additional provisions raised	-	4,602,000
Provisions utilised	(988,000)	(1,823,851)
Balance at end of year	5,046,949	6,034,949

16(b). Non - Current Employee benefit obligation	2016/2017	2015/2016
Balance at the beginning of year	182,839,791	113,863,338
Additional provisions raised	100,342,145	95,040,309
Provisions utilised	(214,622,754)	(26,063,856)
Balance at end of year	68,559,182	182,839,791

Other Disclosures

17) Contingent Loss/Asset – IPSAS 19

Some fraudulent transaction of Kes 13,391,130 and Kes 26,170,836 occurred in the Financial Years 2011/2012 and 2012/2013 through electronic fund transfer to various accounts opened in the names of parties unknown to the Board

The matter was reported to the Banking Fraud Investigating unit of Kenya Police and investigations carried out resulting to arrest of some suspects who have since been charged in court with stealing under SEC 275 of the penal code. However, the bank (KCB) initiated fraud recovery measures where to date Kes.5.6 million has been credited back to the account while Kes.1.4 million bounced back to the account. The resultant loss is Kes.32, 551,152

The financial statement are prepared basing on the best accounting estimates therefore the recognition of this contingent loss is dependent upon the outcome of the proceedings in court and/or on-going discussions with KCB bank arising from breach of duty of care.

18) Statement of Comparison of Budget and Actual Amounts IPSAS 24.

Employee cost – the board utilized Kes 803,385,224 of the budgeted amount of Kes 1,381,947,279. The underutilization of Kes 578,562,055 was as result of the Board not being able fill the vacant position budgeted for due to freezing of employment by the National government. The board also budgeted for staff salary increment after the approval by the board of directors. However, this could not be implemented as the letter of authority was not received within the financial year from Salary Remuneration Commission.

Board Expenses- the Board utilized Kes 18,972,384 of the budgeted amount of Kes 53,000,000. The balance of Kes 34,027,616 could not utilize due to delay in fully constituting the board of directors.

19. Related Party Disclosures – IPSAS 20

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. The following are related party transactions that took place during the year:

Related party	Number	Nature	Transaction type	Amount (Kes)	Balances as at 30 th June 2017 (Kes)
Board members	13	Governing body	Allowances	16,530,544.00	Nil
Senior management	9	Employees	Remuneration		
Constituencies	290	Sub-entities	Funds transferred	27,587,556,199.60	4,986,900,490.65

NB: the amounts disclosed under constituencies as a related party are recognised in separate Central Bank of Kenya (CBK) Fund Account financial statements for the year ended 30th June 2017.

20. Events after the reporting Period

There were no material events that are either adjusting or non-adjusting after the reporting date.

21. Taxation

The Fund is tax exempt from corporate tax since it's funded through government exchequer.

The interest earned from Commercial Banks is classified as qualifying interest hence withholding tax of Kes 11,369,892.73 is final and reported net of Kes 64,429,842 in the financial statements.

I. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:
1.1	Accrued Economic Stimulus Programme (ESP): Supporting documentation and analysis of Kes 14,917,200.00 owed to the constituencies.	Restatement has been done on the accrued ESP liabilities since the affected constituency committees did/has not submitted the expenditure returns which was the required criteria for reimbursement .Also the ESP program lapsed and the committee disbanded making it difficult to locate the beneficiaries since no claim has been made to date and is unlikely to happen. A reversal of the accrued expenditure has been done by debiting the liability and crediting the surplus brought forward and restatement of the financial statement for 2015/2016. The funds shall remain with the Board and can be paid against claim should there be any. Such funds may be used on monitoring and taking stock of ESP projects across the country which was the purpose for such also.	Venazio Gachara Senior Accountant	Resolved
1.2	Cash and cash equivalent: Realizable value of funds held at chase	No funds will be lost since all funds amounting to Kes 357.53 Million will be fully paid since SBM Holdings Mauritius acquired 75% assets which	Venazio Gachara Senior Accountant	Resolved

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:
	bank as call deposit could not be determined	<p>is matched to equivalent liabilities in Chase bank. The CBK signed a contract with SBM on the payment mode of 75%. Payment will be made at 37.5% in the year 2018; 12.5% in 2019; 12.5% to be paid in 2020 and final balance of 12.5% to be paid in year 2021.</p> <p>The 25% balance under moratorium will be paid by Kenya Deposit Insurance Corporation (KDIC).</p>		