

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GATUNDU NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

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## PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

## REPORT ON THE FINANCIAL STATEMENTS

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Gatundu North Constituency set out on pages 14 to 46, which comprise the statement of assets and liabilities as at 30 June, 2021, and the summary statement of appropriation, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit

Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Gatundu North Constituency as at 30 June, 2021, 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

## **Basis for Qualified Opinion**

### **1. Inaccuracies in the Financial Statements**

The statement of receipts and payments reflects use of goods and services expenditure amounting to Kshs.6,727,815 as disclosed in Note 5 to the financial statements which differs with the amount of Kshs.6,813,910 reflected in the ledger resulting to an unreconciled variance of Kshs.86,095. Further, the recomputed totals in the note amounts to Kshs.6,564,025 resulting to a casting error of Kshs.163,790.

In addition, the statement of cashflows reflects net cash flows from investing activities for 2019/2020 financial year of Kshs.49,933,470. However, re-computation of the statement balances reveals Nil balances for net cash flows from investing activities.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

### **2. Unsupported Pending Staff Payables**

Note 17.2 under other important disclosures reflects pending staff payables amounting to Kshs.977,835 which relates to staff gratuity. However, payment vouchers in support of the expenditure were not provided for audit.

In the circumstances, the accuracy and completeness of pending staff payables amounting to Kshs.977,835 could not be confirmed.

### **3. Inaccuracies in Transfers from NG-CDF Board**

The statement of receipts and payments reflects transfers from the Board amounting to Kshs.153,367,724 as disclosed in Note 1 to the financial statements. However, review of bank statement records provided for audit showed that an authority to incur expenditure amounting to Kshs.15,000,000 which was received on 16 June, 2021 was not included in the financial statements as a receipt during the year under review, hence understating the receipts by the same amount.

In the circumstances, the accuracy and completeness of the transfers from other government entities amounting to Kshs.153,367,724 could not be confirmed.

#### **4. Unsupported Bursary Expenditure**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.39,168,475 as disclosed in Note 7 to the financial statements which includes an amount of Kshs.32,108,625 spent on bursaries to secondary schools, tertiary institutions and Special Schools. Included in the bursary expenditure is an amount of Kshs.3,691,500 which was not supported by payment vouchers with appropriate authority and documentation.

In the circumstances, the accuracy and completeness of the other grants and transfers amounting to Kshs.39,210,825 could not be confirmed.

#### **5. Unposted Transactions for Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.39,210,825 as disclosed in Note 7 to the financial statements which includes an amount of Kshs.32,108,625 spent on bursaries to secondary schools, tertiary institutions and special schools. However, review of documents provided for audit showed that transactions amounting to Kshs.5,399,000 relating to other grants and other payments paid during the year, were not posted to the ledgers.

In the circumstances, the accuracy and completeness of the other grants and transfers amounting to Kshs.39,210,825 could not be confirmed.

#### **6. Unreconciled and Unsupported Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.27,958,972 as disclosed in Note 10A to the financial statements. However, the balance was not supported by a board of survey report and the Management did not provide explanation for the omission. Further, review of the bank reconciliation statements revealed payments in cash book not recorded in the bank statement in the month of June, 2021 included statutory deductions amounting to Kshs.34,461 that had not been submitted to the relevant bodies.

In addition, payments amounting to Kshs.46,891 were not included in the bank reconciliation while cheques amounting to Kshs.791,281 that were unrepresented since June, 2019 were reversed in the cash book in the month of April, 2021 which included statutory deductions amounting to Kshs.138,725 that were not replaced and remitted to the respective authorities to avoid further interests and penalties. No explanation was given as to why the cheques were not reversed for a long time and supporting minutes approving the reversal were not provided for audit.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.27,958,972 could not be confirmed.

## **7. Unconfirmed Project Management Committee Balances**

Annex 5 to the Financial Statements reflects Project Management Committee unutilized fund balances of Kshs. 4,254,438 which includes fifty-five (55) Project Management Committee (PMC) accounts balances held in equity bank as at 30 June, 2021. However, the certificates of bank balances, cash books and bank reconciliation statements for the PMC accounts were not provided for audit and the Management provided only ten (10) PMC account bank statements. Review of the ten (10) PMC Account bank statements provided for audit showed a variance of Kshs.660,278 between the amounts reported in the financial statements and the bank statement balances as at 30 June, 2021.

Consequently, the accuracy and completeness of the PMC balances of Kshs.4,254,438 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Gatundu North Constituency Management in accordance with ISSAI 130 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. There were no key audit matters to report in the year under review.

### **Other Matter**

### **Budgetary Control and Performance**

The summary statement of appropriation reflects final receipts budget and actual on comparable basis totalling to Kshs.277,581,568 and Kshs.222,492,689 respectively, resulting to an underfunding amounting to Kshs.55,088,879 or approximately 20% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.277,581,568 and Kshs.194,533,717 respectively, resulting to an under expenditure of Kshs.83,047,851 or approximately 30% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public

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

## **Conclusion**

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

## **Basis for Conclusion**

### **1. Unauthorized Expenditure on Compensation of Employees**

The statement of receipts and payments reflects compensation of employees' expenditure amounting to Kshs.2,137,428 as disclosed in Note 4 to the financial statements. Review of payment vouchers and other supporting records provided for audit showed that the salary payments were approved by the committee through minutes dated 4 November, 2019 which were outdated and relate to a prior financial year. Further, one payment voucher for June, 2021 amounting to Kshs.154,940 was not authorized by the Accounting Officer. No explanation was provided why the Management operated and allowed payments to be executed without the approvals as required under law.

In the circumstances, Management was in breach of the law.

### **2. Irregular Payment of Committee Allowances**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.6,727,815 as disclosed in Note 5 to the financial statements which includes committee allowances and other committee allowances amounting to Kshs.3,320,000. However, an approved work plan for the year was not provided for audit which is contrary to Regulation 25(1)(2) of the National Government Constituencies Development Fund Regulation, 2016.

Further, payment vouchers were not supported by approval via minutes of a resolution of a meeting of the Constituency Committee contrary to Section 12(5) of the National Government Constituencies Development Fund Act, 2015. In addition, the minutes attached in support of the payments did not state specifically the dates the meetings were held and the actual amounts to be paid.

In the circumstances, Management was in breach of the law.

### **3. Irregular Procurement of Fuel, Oil and Lubricants**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.6,727,815 as disclosed in Note 5 to the financial statements which includes fuel, oil and lubricants expenditure amounting to Kshs.600,000. Review of the payment vouchers and other supporting records provided for audit showed that fuel and lubricants were procured from a supplier. However, it was not possible to confirm whether the

supplier was legally and competitively awarded the tender in the absence of the procurement documents. Further, the contract agreement and fuel register were not provided for audit.

Consequently, Management was in breach of the law.

#### **4. Unconfirmed Reporting on Emergency Expenses**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.39,168,475 which includes emergency expenditure amounting to Kshs.4,859,850 as disclosed in Note 7 to the financial statements. However, no documentary evidence was provided showing that the Management had reported the emergency expenditure to the Board using the prescribed format.

Consequently, Management was in breach of the law.

#### **5. Irregularities in the Awarding of Bursaries**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.39,168,475 as disclosed in Note 7 to the financial statements which includes an amount of Kshs.32,108,625 spent on bursaries to secondary schools, tertiary institutions and special schools. However, there was no evidence of formation of the education bursary committees to carry out vetting of applicants.

Further, it was not possible to confirm how much the successful applicants were awarded since the awarded amounts were not indicated on the application form. In addition, the minutes of the vetting committee and the details of the successful applicants were not provided for audit.

Consequently, Management was in breach of the law.

#### **6.0 Irregularities in Implementation of Primary and Secondary Schools**

The statement of receipts and payments reflects transfer to government entities amounting to Kshs.146,500,000 as disclosed in Note 6 to the financial statements which includes transfers to secondary schools amounting to Kshs.12,400,000 and transfers to primary schools amounting to Kshs.134,100,000. Review of the project files provided for audit and physical verification of the projects revealed the following anomalies:

##### **6.1 Unconfirmed Purchase of Land for Igamba Primary School**

The Management disbursed a total of Kshs.3,000,000 to the PMC for purchase of land for Igamba Primary School. However, review of the PMC bank statements for Igamba Primary School reflects that, although an amount of Kshs.3,000,000 was transferred to the account, the payment to the owner of the land was not traced in the bank statement, yet all the monies in the PMC account had been utilized apart from the remaining balance of Kshs.108,908 by 30 June, 2021.

In the circumstances, the value for money on Kshs.3,000,000 incurred in the purchase of the land could not be confirmed.

## **6.2 Anomalies in Renovations of Ndekei Primary School**

The Management disbursed a total of Kshs.4,000,000 to the PMC for renovation of 9 classrooms at Ndekei Primary School and an office at Igamba Primary School.

Review of documents provided for audit reflects that the contract was awarded to a contractor on 15 February, 2021 at a contract sum of Kshs.4,000,830. However, the contractor was notified of the award on 15 February, 2021 which shows that the contract was signed the same day after the notification of the award which was before the lapse of the recommended 14 days contrary to Section 135(3) of the Public Procurement and Asset Disposal Act, 2015.

A regret letter was sent to the awarded bidder on 23 February, 2021 citing the bid was unsuccessful due to lack of proof of the National Construction Authority certificates. It was not clear how the contract was signed on 15 February, 2021 and awarded to the same contractor who received a regret letter a few days later. Further, the contractor sent a letter on 2 March, 2021 after obtaining the NCA certificates.

In addition, the tender opening minutes were not provided for audit, hence it was not possible to confirm when the tenders were opened and the bidders who responded which is contrary to Section 78 (10) of the Public Procurement and Disposal Act, 2015. It was further noted that the tender evaluation minutes and the criteria used to select the successful bidder were not provided which is contrary to Section 85 of the Public Procurement and Assets Disposal Act, 2015.

In the circumstances, Management was in breach of the law.

## **6.3 Anomalies in Construction of Retaining Wall of Muchakai Primary School**

The Management disbursed a total of Kshs.3,000,000 to the PMC for Muchakai Primary School for construction of retaining wall plus storm water drainage. The contract was awarded on 5 October, 2020 at a contract sum of Kshs.2,999,795.

Physical verification carried out on 7 April, 2022 showed that the storm water drainage of 60 metres had not been done and the project was not labelled. Further, in the absence of the bill of quantities, site instructions, works progress reports, completion certificates and site meeting minutes, the audit could not ascertain the scope of works and whether the works were carried out in accordance to the requirements.

In the circumstances, the value for money on Kshs.3,000,000 incurred in the construction of retaining wall could not be confirmed.

#### **6.4 Unconfirmed Construction of a Science Laboratory at Gakoe Mixed Secondary School**

The Management disbursed a total of Kshs.2,400,000 to the PMC for Gakoe Mixed Secondary School for construction of a science laboratory.

Physical verification carried out on 7 April, 2022 showed that the project was labelled to have been done in the financial year 2019/2020 hence the project might not have been implemented in the year under review. Further, site instructions, works progress reports, completion certificates and site meeting minutes were not provided for review.

In the circumstances, the value for money on Kshs.2,400,000 incurred in the construction of a science laboratory could not be confirmed.

#### **6.5 Anomalies in renovation of Twin Laboratory at Mataara Secondary School**

The Management disbursed a total of Kshs.3,000,000 to the PMC for Mataara Secondary School for renovation of twin laboratory. The contract was awarded to a contractor on 23 April, 2021 at a contract sum of Kshs.2,995,980. However, as per the site inspection reports dated 7 June, 2021, the school requested the verandah to be fitted with tiles instead of red oxide finish which was factored in the extra works undertaken by the contractor. Physical verification carried out on 7 April, 2022 showed that the verandah was not fitted with tiles and the window panes were not painted. Further, manholes were not well done and the labelling of the project had not been done.

In the circumstances, the value for money on Kshs.3,000,000 incurred in the renovation of twin laboratories could not be confirmed.

#### **6.6 Un-Utilized Ablution Block at Matara Police Station**

The Management disbursed a total of Kshs.1,400,000 to the PMC for Mataara Police Station for construction of ablution block and office electrical works.

Physical verification carried out on 7 April, 2022 showed that the constructed police station was complete but not in use hence value for money might not have been realized from the unutilized project.

In the circumstances, the value for money on Kshs.1,400,000 incurred in the construction of ablution block could not be confirmed.

### **7. Unutilized Project Management Committee Balances**

Annex 5 to the Financial Statements reflects Project Management Committee unutilized fund balances of Kshs.4,254,438 as at 30 June, 2021 which were not returned to the constituency account contrary to Section 12 (8) of the National Government Constituencies Development Fund Act, 2015.



Consequently, Management was in breach of the law.

## **8. Under-allocation of Bursary Funds**

The summary statement reflects total allocation of Kshs.277,581,568 while Note 7 indicates issuance of bursaries of Kshs.32,108,625 which translates to about 12% of the total allocations. This is contrary to Regulation 21(5) of the National Constituencies Development Fund (County Governments) Regulations, 2016 which provides that a Constituency Committee shall allocate not less than 25% of the funds allocated to a constituency for bursaries.

Consequently, Management was in breach of the law.

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

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related

to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in

which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**16 August, 2022**