

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NDHIWA 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 - Ndhiwa Constituency set out on pages 19 to 68, which comprise of the statement of assets and liabilities as at 30 June, 2021, and the statement receipts and payments, statement of cash flows and summary statement of appropriation 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 - Ndhiwa 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1. Inaccuracies in the Annual Report and Financial Statements**

The annual report and financial statements as prepared and presented for audit had the following anomalies;

- i. The statement of receipts and payments reflects compensation of employees expenditure amount of Kshs.5,704,397 while Note 4 to the financial statements and the statement of cash flow reflects an amount of Kshs.5,550,085 resulting to an unexplained and unreconciled variance of Kshs.154,312.
- ii. The statement of receipts and payments reflects use of goods and services expenditure amount of Kshs.7,358,872 while Note 5 to the financial statements, the statement of appropriation and statement of cash flow reflects an amount of Kshs.7,513,184 resulting to an unexplained and unreconciled variance of Kshs.154,312.
- iii. The statement of receipts and payments reflects other grants and transfers expenditure amount of Kshs.75,387,299 while Note 7 to the financial statements reflects an amount of Kshs.74,342,299 resulting to an unexplained and unreconciled variance of Kshs.1,045,000. In addition, the statement of appropriation and statement of cash flow reflects actual amount of Kshs.61,582,299 resulting into an explained variance of Kshs.13,805,000.
- iv. The statement of receipts and payments reflects transfers to other government entities expenditure amount of Kshs.78,934,894 while the statement of appropriation and statement of cash flow reflects an actual amount of Kshs.91,694,894 resulting to an unexplained and unreconciled variance of Kshs.13,000,000.
- v. The statement of receipts and payments reflects other payments expenditure amount of Kshs.1,200,000 while the statement of appropriation and statement of cash flow reflects actual amount of Kshs.2,245,000 resulting to an unexplained and unreconciled variance of Kshs.1,045,000.
- vi. The statement of receipts and payments reflects acquisition of assets amount of Kshs.2,760,000 while the summary of fixed asset register as disclosed in Annexure 4 to the financial statements reflects additions during the year of Kshs.2,885,000 resulting to an unexplained and unreconciled variance of Kshs.125,000.

In the circumstances, the accuracy and completeness of the above balances included in these annual report and financial statements could not be confirmed.

### **2. Inaccurate and unsupported Compensation of Employees**

The statement of receipts and payments reflects compensation of employees amount of Kshs.5,704,397 as disclosed in Note 4 to the financial statements. However, review of expenditure records revealed that the amount includes travelling and subsistence

allowances, fuel, repairs and maintenance expenses totalling to Kshs.111,500. In addition, payments for salary in the month of December, 2020 of Kshs.405,870 was erroneously posted in the ledger as Kshs.483,870 resulting to an overstatement of Kshs.78,000. Further, the gratuity provision amount of Kshs.820,752 was not supported.

In the circumstances, the accuracy and completeness of the compensation of employees amount of Kshs.5,704,397 could not be confirmed.

### **3.0 Transfers to Other Government Entities**

#### **3.1 Misclassification in Transfers to Secondary Schools**

The statement of receipts and payments reflects transfers to other government units amount of Kshs.78,934,894 which includes transfers to secondary schools amount of Kshs.61,734,894 as disclosed in Note 6 to the financial statements. Review of records revealed that an amount of Kshs.17,942,254 was spent on the construction of a storey tuition and administration block at Ndhiwa Kenya Medical Training College campus. However, the payments were charged as part of transfers to secondary schools.

In the circumstances, the accuracy and completeness of the transfers to secondary schools balance of Kshs.61,734,894 could not be confirmed.

#### **3.2 Variances in Transfers to Primary Schools**

The statement of receipts and payments reflects transfers to other government entities amount of Kshs.78,934,894 which includes transfers to primary schools of Kshs.17,200,000 as disclosed in Note 6 to the financial statements. However, review of records revealed that the ledger reflected a balance Kshs.26,980,000 resulting to an unexplained and unreconciled variance of Kshs.9,780,000.

In the circumstances, the accuracy and completeness of the transfers to primary schools balance of Kshs.17,200,000 could not be confirmed.

### **4.0 Other Grants and Transfers**

#### **4.1 Unsupported Bursary Payments**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.75,38,299 which includes bursary to tertiary institutions of Kshs.18,833,536 as disclosed in Note 7 to the financial statements.

However, review of records revealed that the ledger reflected an amount of Kshs.14,641,480 resulting to an unexplained and unreconciled variance of Kshs.4,192,056. In addition, expenditures totalling to Kshs.2,428,000 were wrongly posted to tertiary institutions while payment vouchers amounting to Kshs.4,029,000 were not posted to the general ledger.

In the circumstances, the accuracy and completeness of the bursary payments to tertiary institutions amount of Kshs.18,833,536 could not be confirmed.

#### **4.2 Variances in Environment Projects Expenditure**

Included in other grants and transfers is environment projects expense of Kshs.4,037,378 as disclosed in Note 7 to the financial statements. However, review of

records revealed that the ledger reflected an amount of Kshs.4,546,637 resulting to an unexplained and unreconciled variance of Kshs.509,260.

In the circumstances, the accuracy and completeness of the environment projects amount of Kshs.4,037,378 could not be confirmed.

### **5.0 Unsupported Acquisition of Assets**

The statement of receipts and payments reflects acquisition of assets balance of Kshs.2,760,000 in respect of purchase of various ICT and IT assets as disclosed in Note 8 to the financial statements. However, review of records revealed that purchases of various assets and equipment worth Kshs. 2,085,000 were not supported.

In the circumstances, the propriety and accuracy of the acquisition of assets expenditure of Kshs.2,085,000 could not be ascertained.

### **6.0 Stale Cheques in Bank Reconciliation Statements.**

The statement of financial position reflects cash and cash equivalents balance of Kshs.681,499 as disclosed in Note 10A to the financial statements

However, review of the bank reconciliation statements revealed that unrepresented cheques totalling Kshs.9,364,458 included stale cheques amounting to Kshs.1,110,793 which had not been reversed in the cash book. In addition, the bank reconciliation statement included payments in bank statement not yet recorded in cash book of Kshs.94,186 that dates back to 31 May 2018. This is contrary Section 90. (1) Public Finance Management Regulations 2015 which states that accounting officers shall ensure any discrepancies noted during bank reconciliation exercise are investigated immediately and appropriate action taken including updating the relevant cash books.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.681,499 could not be confirmed and Management was in breach of the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Ndhiwa 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**

### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects budgeted receipts of Kshs.219,115,838 and actual receipts of Kshs.172,026,961 resulting to an under funding of Kshs.47,088,877 or 21% of the budget.

Further, the statement reflects expenditure budget and actual on comparable basis of Kshs.219,115,838 and Kshs.171,345,462 respectively resulting in an underperformance of Kshs.47,770,376 or 22% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on goods and services delivery to the public.

### **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **1.0 Transfers to Other Government Entities**

##### **1.1 Incomplete Construction of Classrooms at Abuoro Primary School**

The statement of receipts and payments reflects transfers to other government units amount of Kshs.78,934,894 which includes transfers to primary schools of Kshs.17,200,000 as disclosed in Note 6 to the financial statements.

Review of expenditure records revealed that an amount of Kshs.1,300,000 was transferred to Abuoro primary school towards renovation of five (5) classrooms and the contractor paid Kshs.1,231,929 or 95% of the contract sum.

However, physical inspection on 7 April, 2022 revealed poor workmanship with chipped and cracked floors, cracked walls and two (2) class rooms with no doors as specified in the bills of quantities.

In the circumstances, the value for money on Kshs.1,231,929 spent on the project could not be confirmed.

## **1.2 Unsupported Construction of Classrooms at Malela Primary School**

The statement of receipts and payments reflects transfers to other government entities amount of Kshs.78,934,894 which includes transfers to primary schools of Kshs.17,200,000 as disclosed in Note 6 to the financial statements. Review of expenditure records revealed that an amount of Kshs.3,600,000 was disbursed towards completion of two (2) storey classrooms block at Malela primary school at a contract sum of Kshs.7,850,000.

However, the contract was terminated on 8 June, 2020 as a result of the contractor abandoning the site without notice after being paid Kshs.1,488,650 on 26 May, 2020. Management proceeded to engage a second local contractor to complete the remaining works and paid a total of Kshs.6,152,939. Physical inspection on 7 April, 2022 revealed that the works were not done in accordance with the contract terms and conditions.

In addition, Management did not provide the following documents for audit;

- i. Letter of termination of the first contractor and the valuation report of works done at the time of termination to support the payment made.
- ii. Tender advertisement, tender committee evaluation report and terms of contract for the re-awarded tender.
- iii. Valuation and inspection report by public works to support the payments for the works done by second contractor.

In the circumstances, the value for money and regularity of the expenditure of Kshs.7,641,589 could not be confirmed.

## **1.3 Stalled Construction of Classrooms at Mariwa Primary School**

The statement of receipts and payments reflects transfers to other government entities amount of Kshs.78,934,894 which includes transfers to primary schools of Kshs.17,200,000 as disclosed in Note 6 to the financial statements. Review of the project implementation status report revealed that the Fund disbursed Kshs.300,000 for roofing of three (3) classrooms at Mariwa Primary School in the financial year 2014/2015. However, physical inspection revealed that the project was incomplete and stalled.

In the circumstances, the value for money on the amount of Kshs.300,000 spent on the project could not be confirmed.

## **1.4 Unsupported Purchase of a School Bus at Oridi Girls Secondary School**

The statement of receipts and payments reflects transfers to other government entities expenditure amount of Kshs.78,934,894 which includes transfers to secondary schools of Kshs.61,734,894 as disclosed in Note 6 to the financial statements. This amount further includes an amount of Kshs.7,500,000 spent for purchase of a 52-seater school bus for Oridi Girls Secondary School.

However, there was no inspection and acceptance committee report provided for audit contrary to Section 48 (3)(b) of the Public Procurement and Assets Disposal Act, 2015 which states that the inspection and acceptance committee shall immediately after the delivery of the goods, works or services inspect and review the goods, works

or services in order to ensure compliance with the terms and specifications of the contract. In addition, the expenditure was not supported with any contract document.

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

### **1.5 Unsupported Purchase of Lockers and Chairs for Secondary Schools**

The statement of receipts and payments reflects transfers to other government entities amount of Kshs.78,934,894 which includes transfers to secondary schools of Kshs.61,734,894 as disclosed in Note 6 to the financial statements.

This balance further includes an amount of Kshs.18,208,059 paid to a local supplier to supply 50 lockers and chairs in thirty two (32) secondary schools. However, it was noted that the requisition letters from the benefitting schools, and inspection and acceptance committee reports were not provided for audit.

In addition, the National Constituency Development Fund Board only approved Kshs.6,250,000 but the Constituency spent Kshs.18,208,059 resulting to an unauthorised expenditure of Kshs.11,958,059.

In the circumstances, the regularity and value for money on the expenditure of Kshs.18,208,059 could not be ascertained.

### **1.6 Unsupported expenditure on Construction at Ndhiwa KMTTC Campus**

The statement of receipts and payments reflects transfers to other government entities amount of Kshs.78,934,894 which includes transfers to secondary schools of Kshs.61,734,894 as disclosed in Note 6 to the financial statements.

Review of expenditure records revealed that an amount of Kshs.17,942,254 was paid to a local contractor towards the proposed construction of a storey tuition and administration block for Ndhiwa Kenya Medical Training College Campus.

However, the project proposals, approved drawings and structural designs by relevant authorities were not provided for audit. In addition, no evidence was provided to proof that the department of public works was involved contrary to Regulation 15(1a) of the National Government Constituencies Development Regulations, 2016 which requires the Project Management Committee for each project in a constituency to implement projects in consultation with the relevant departments of government.

In the circumstances, the value for money and regularity of Kshs.17,942,254 spent on the project could not be confirmed.

## **2.0 Other Grants and Transfers**

### **2.1 Failure to Involve Technical Department on Environmental Projects**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.75,387,299 which includes environment projects of Kshs.4,037,378 as disclosed in Note 7 to the financial statements. Review of expenditure records revealed that an amount of Kshs.800,000 was paid to a local supplier for the supply and delivery of tree seedlings to various schools. However, physical inspection on 7 April, 2022 in sampled schools revealed that only approximately thirty-five (35) trees out of the two hundred (200) trees delivered survived or 17% of the total supplied seedlings. In addition, the inspection and acceptance certificate for the delivered seedlings was not provided for audit. Further, there was no evidence provided to support that the county

department in charge of the environment was involved to provide technical advice contrary to Section 36(1) of the National Government Constituency Development Act, 2015.

In the circumstances, value for money of Kshs.800,000 spent on the project could not be confirmed.

## **2.2 Lack of a Properly Constituted Bursary Subcommittees**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.75,387,299 which includes bursary payments of Kshs.51,191,467 to secondary, tertiary and special schools as disclosed in Note 7 to the financial statements. However, no evidence was provided to confirm that the subcommittee as constituted co-opted two members, one whom must be the area education officer or representative of the of Ministry of Education contrary to the provisions of the Constituency Development Fund Board circular reference VOL1/111, dated 13 September, 2010 which requires formation of a subcommittee of Constituency Development Fund to manage the bursary scheme including two co-opted members one of whom must be an education officer or an officer seconded from the Ministry of Education.

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

## **2.3 Unsupported Emergency Projects Expenditure**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.75,387,299 which include emergency projects of Kshs.7,192,207 as disclosed in Note 7 of the financial statement. However, the expenditure was not supported with relevant procurement documents. In addition, no evidence was provided from the constituency committee to categorize the expenses as emergency as required by Section 8(3) of the National Government Constituency Development Fund Act, 2015 which provides that emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

In the circumstances, regularity and propriety of the expenditure of Kshs.7,192,207 could not be confirmed

## **3.0 Unsupported Expenditure on ICT Hubs**

The statement of receipts and payments reflects other payments amount of Kshs.1,200,000 as disclosed in Note 9 to the financial statements. Review of the records established that the funds were utilized in the installation of electricity and fencing of ICT Hubs at Pala and Kobodo. However, relevant procurement documents were not provided for audit

In the circumstances, the regularity and validity of expenditure of Kshs.1,200,000 could not be confirmed.

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 to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 sustain its services, disclosing, as applicable, matters related sustainability of services and using the applicable basis of accounting unless the Management is aware of the intentions 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 the 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 controls 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 controls 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 controls 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 controls.
- 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 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 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 sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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



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

**Nairobi**

**21 September, 2022**