

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATAYOS CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022**

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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 the 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 controls, 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 - Matayos Constituency set out on pages 1 to 44, which comprise of the statement of assets and liabilities as at 30 June, 2022, statement of 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 National Government Constituencies Development

Fund – Matayos Constituency as at 30 June, 2022, 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 the National Government Constituencies Development Fund Act, 2015.

## **Basis for Qualified Opinion**

### **1. Unsupported Bank Account Balances**

The financial statements and as disclosed in Note 17.4 to the statements reflect Project Management Committee (PMC) bank account balances totalling Kshs.4,093,447 as at 30 June, 2022. However, bank reconciliation statements and cash books in support of these balances were not provided for audit review.

In the circumstances, the accuracy and completeness of the Project Management Committee bank account balances of Kshs.4,093,447 could not be confirmed.

### **2. Cash and Cash Equivalents**

The statement of assets and liabilities and as disclosed in Note 10A to the financial statements reflect balance of Kshs.34,418,866 in respect of cash and cash equivalents. However, the bank reconciliation statement for the month of June, 2022 includes un-presented stale cheques totalling Kshs.2,356,989. No satisfactory explanation was provided on why the cheques had not been reversed in the cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.34,418,866 could not be confirmed.

### **3. Unsupported Bursary Disbursements**

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects balance of Kshs.62,139,633 in respect of other grants and other transfers. The amount includes Kshs.7,585,323 being disbursement of bursary funds to tertiary institutions which was not supported by a ledger or detailed schedules.

In the circumstances, the accuracy and completeness of the amount of Kshs.7,585,323 disbursed to tertiary institutions could not be confirmed.

### **4. Understated Transfers to Other Government Units**

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects balance of Kshs.89,119,494 in respect of transfers to other Government units out of which Kshs.75,067,254 relates to transfers to secondary schools. However, review of the supporting schedule and payment vouchers reflect an amount of Kshs.76,867,250 resulting to a variance of Kshs.1,799,996 which was not reconciled.

In the circumstances, the accuracy and completeness of transfers to other Government units amount of Kshs75,067,254 could not be confirmed.

### **5. Undisclosed and Unsupported Payment to a Corporation**

Review of the cash book and bank statements revealed a payment of Kshs.2,000,000 made to Rural Electrification and Renewable Energy Corporation on 18 March, 2022 for electricity connection within the Constituency. However, the expenditure has not been included in these financial statements. Further, no evidence was provided to indicate that electricity was connected within the constituency.

In the circumstances, the propriety of the expenditure of Kshs.2,000,000 could not be confirmed.

## **6. Undisclosed and Unsupported Disbursement for Purchase of Land**

Review of the cash book and bank statements revealed a disbursement of Kshs.3,460,000 to a Special School on 22 April, 2022 for purchase of land measuring 0.933 acres. However, the amount has not been disclosed in the financial statements and no evidence was provided to indicate that the land was purchase as intended.

In the circumstances, the propriety of the payment of Kshs.3,460,000 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 - Matayos 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 summary statement of appropriation reflects receipts budget and actual on comparable basis amounts of Kshs.213,811,965 and Kshs.201,723,087 respectively, resulting to under-funding of Kshs.12,088,878 or 6% of the budget. Similarly, the statement reflects actual expenditure of Kshs.167,004,225 against approved budget of Kshs.213,811,965 resulting to under-performance of Kshs.46,807,740 or 22% of the budget.

The under-funding and under-performance affected the planned activities and may have negatively impacted on service delivery to the public.

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

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

# 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. Incomplete and Stalled Projects

#### 1.1 Construction of Administration Block

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects an amount of Kshs.89,119,494 in respect of transfers to other Government Units which, includes Kshs.75,067,254 being transfers to secondary schools, out of which Kshs.21,000,000 was disbursed to a Secondary School for construction of a one-storey administration block.

The contract was awarded to local construction company at a contract sum of Kshs.35,284,255 for a contract period of fifty-two (52) weeks commencing 13 December, 2021 with a completion date of 13 December, 2022. However, the tender opening minutes dated 25 October, 2021 were not initialed by the tender opening committee contrary to Section 78 of the Public Procurement and Assets Disposal Act, 2015. The project was suspended on 3 October, 2022 by the Department of Public works due to desertion of the works by the contractor. However, the contractor requested for an extension of the contract period which was granted on 31 January, 2023 and the contract period was extended to 30 April, 2023.

An audit inspection carried out on 27 March, 2023 revealed that the project had stalled and the contractor abandoned site. At the time inspection, the contractor had done the super structure of the ground floor including plastering, wiring, plumbing, windows, doors and the floor representing 48% of the total works and paid a total of Kshs.22,792,532 or 65% of the contract sum compared to 48% completion status of the project and with only one month remaining to the completion of the new project period.

In the circumstances, value for money was not obtained from the project.

#### 1.2 Construction of a Multi-Purpose Hall

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects an amount of Kshs.89,119,494 in respect of transfers to other Government units which includes Kshs.75,067,254 being transfers to secondary schools out of which Kshs.36,900,000 was transferred to a School for construction of multi-purpose hall. The contract for the project was awarded to a local construction company on 24 November, 2021 at a contract sum of Kshs.46,833,216 for a period of fifty-two (52) weeks commencing 1 December, 2021 and scheduled for completion on 30 November, 2022.

A physical inspection carried out on 27 March, 2023 revealed that the contractor had only done windows and that the works were 45% complete. It was also revealed that the project had stalled and the contractor had abandoned site. At the time of stalling, the contractor had been paid a total of Kshs.41,570,226 being 89% of the contract sum while the project was 45% complete.

In the circumstances, value for money was not obtained from the project.

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 overall 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 controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain 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 its 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 control would not necessarily disclose all matters in the internal controls 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 time 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 judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the 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**

**18 July, 2023**