

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GATANGA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

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## REPORT ON THE FINANCIAL STATEMENTS

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Gatanga Constituency set out on pages 9 to 42, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and the summary statement of appropriation - recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 - Gatanga Constituency as at 30 June, 2019, 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**

#### **Ineligible Expenditure in Secondary Schools Bursary**

The statement of receipts and payments reflects an expenditure of Kshs.43,955,369 in respect to other grants and transfers, which includes an expenditure of Kshs.27,337,913 on bursary-secondary schools as disclosed in Note 7 to the financial statements. Included in the bursary expenditure is an amount of Kshs.3,600,000 incurred on training of “boda boda” riders. Training of “boda boda” riders was not one of the items of the bursary-secondary schools account.

In addition, no procurement records including tender notices, opening and evaluation minutes were provided for audit review. Therefore, it was not clear how the driving school was identified and awarded the tender.

Consequently, the completeness and regularity of the expenditure of Kshs.3,600,000 included in the bursary to secondary schools could not be confirmed.

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

#### **Budget Control and Performance**

According to the summary statement of appropriation, during the year under review, the National Government Constituencies Development Fund - Gatanga Constituency received a total of Kshs.108,784,483 from the NG-CDF Board, against a final budget of Kshs.175,702,295, resulting in a shortfall in disbursements of Kshs.66,917,812 or about 38% of the budget.

Further, the NG-CDF Gatanga Constituency incurred a total expenditure of Kshs.107,450,562 against the total final budget of Kshs.175,702,295. The under-utilization of Kshs.68,251,733 or 39% of the approved budget impacted negatively on service delivery to the residents of Gatanga Constituency.

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

##### **1.1 Incomplete Gatunyu Secondary School Projects**

Disclosed in Note 6 to the financial statements under transfer to other government entities is an expenditure of Kshs.12,500,000 on transfers to secondary schools. Included in the expenditure is an amount of Kshs.2,400,000 for rehabilitation of classrooms and construction of one-unit pit latrine at Gatunyu Secondary School. The two projects were allocated Kshs.2,000,000 and Kshs.400,000 respectively during the year 2018/2019.

Physical inspection of the projects on 07 February, 2020 revealed that painting works on the classrooms was not done. Further, construction of the pit latrine was not done despite the disbursement of money to the school.

Consequently, the regularity and value for money on the expenditure of Kshs.2,400,000 incurred by the school could not be confirmed.

## **1.2 Incomplete Works at Kirwara Secondary School**

The transfers to secondary schools' expenditure of Kshs.12,500,000 also includes an amount of Kshs.4,000,000 disbursed to Kirwara Secondary School for construction of an Administration Block (Phase 1) to completion.

A review of the tender evaluation minutes dated 29 April, 2019 revealed that the contract was awarded to a contractor at a contract sum of Kshs.3,992,375. However, other procurement records including the letter of notification, acceptance letter, signed contract agreement and the bill of quantities for the project were not provided for audit verification.

Further, physical verification done on 10 February, 2020 revealed incomplete works including flooring, plastering/painting, window pane and plumbing works while the contractor was not on site.

Consequently, the regularity and value for money of the expenditure of Kshs.4,000,000 incurred on the project in the year could not be confirmed.

## **2. Other Grants and Other Payments**

### **2.1 Unfinished Construction of Mukurwe Chief's Office**

Disclosed in Note 7 to the financial statements under other grants and other payments is an expenditure of Kshs.11,404,869 on security projects. Included in the expenditure is an amount of Kshs.3,000,000 for completion of the Mukurwe Chief's Office. This was in addition to Kshs.1,500,000 allocated for the project in 2017/2018 financial year.

The completion works entailed; roofing, flooring, painting, fitting windows and doors, and plumbing works. A review of available project expenditure returns records showed that the contract was awarded to a firm at a contract sum of Kshs.2,999,200. However, procurement records including bill of quantities, tender opening and evaluation minutes, letter of notification, acceptance letter and signed contract agreement were not provided for audit review.

In addition, physical inspection of the project carried out on 10 February, 2020 revealed that the building which comprise a one-storey house was incomplete. Some of the works relating to the floor, windows, doors, painting, plastering and plumbing were not done while the contractor was not on site.

As a result, the regularity and value for money for the expenditure of Kshs.3,000,000 incurred during the year could not be confirmed.

### **2.2 Delayed Construction of Thungururu AP Post House**

The expenditure of Kshs.11,404,869 on security projects also includes an amount of Kshs.404,869 incurred in respect of construction of Thungururu Administration Police

House. Physical inspection done on 10 February, 2020 revealed that the project had not been implemented despite the disbursement of the funds to the project management committee's account in August, 2018.

### **3. Delayed Gatanga ICT Innovation Hub Project**

Disclosed under Note 9 to the financial statements on other payments is an expenditure of Kshs.3,507,770 in respect of ICT hub. Available records indicate that the National Government Constituencies Development Fund - Gatanga Constituency had allocated a total Kshs.4,677,027 for development of four innovation hubs in Gatanga, Kariara, Kihumbu and Ithanga wards, each receiving an amount of Kshs.1,169,256.

The above contract was awarded to a local firm at a total contract sum of Kshs.4,677,027 and the contract agreement signed on 25 October, 2018. However, procurement records and details of the ICT equipment ordered and supplied were not presented for audit review.

Further, a site inspection carried out in February, 2020 revealed that only Kariara and Gatanga wards ICT hubs were completed and some of the tablets supplied were not in good working condition. In addition, ICT hubs at Kihumbu and Ithanga wards were not operational.

Consequently, the value for money on the expenditure of Kshs.3,507,770 incurred on the project during the year ended 30 June, 2019 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 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 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 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 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 financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion 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 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 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 ability of National Government Constituencies Development Fund - Gatanga Constituency 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 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 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**01 October, 2021**