

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kuria West Constituency set out on pages 9 to 54, which comprise of the statement of financial assets and liabilities as at 30 June, 2019, 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 the National Government Constituencies Development Fund - Kuria West 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracy in the Statement of Financial Assets and Liabilities

The statement of financial assets and liabilities reflects total financial assets balance of Kshs.22,037,219 and nil liabilities. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the statement shows net liabilities at the bottom instead of the net financial position balance of Kshs.22,037,218.

In the circumstances, the accuracy, completeness, and validity of the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

2. Unsupported Bank Balances

Disclosed in Note 15.4. to the financial statements are Projects' Management Committees (PMC) bank balances totalling to Kshs.2,255,537. However, the balance differs with the total amount of Kshs.6,435,546.65 reflected in Annex 5 to the financial statements resulting to an unreconciled variance of Kshs.4,180,010. Further, supporting documents including bank reconciliation statements, confirmation certificates and cash

books for the PMC bank balances and payment vouchers were not provided for audit review.

Consequently, the accuracy, completeness and validity of the PMC bank balances of Kshs.6,435,547 as at 30 June, 2019 could not be confirmed.

3. Unsupported Disbursements

During the year under review, disbursements totalling to Kshs.8,500,000 were made to various Projects` Management Committees (PMC) accounts to facilitate the implementation of various projects. However, the disbursements were not adequately supported with relevant documents including complete expenditure returns, cash books, payment vouchers for cash withdrawals, stores records, minutes of tender processing committees and report of inspection and acceptance committee approving the payments.

Consequently, the accuracy, completeness and propriety balance of Kshs.8,500,000 disbursed to the PMCs bank accounts during the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Project

As disclosed in Note 7 to the financial statements, the statements of receipts and payments reflects other grants and transfers balance of Kshs.39,686,835. The balance includes an amount of Kshs.5,898,835 which was allocated for security projects out of which an expenditure amounting to Kshs.500,000 was incurred on purchase of land and fencing of Maberu Police Station. Physical verification done on 19 March, 2020 revealed that land beacons indicating the size of the land and sign board showing the financier were not erected. Further, the sale agreement and title deed as evidence of purchase and land ownership were not provided.

In the circumstances, the accuracy, completeness and validity of the expenditure of Kshs.500,000 for the year ended 30 June, 2019 could not be confirmed.

5. Unsupported Bursary Disbursements

As disclosed in Note 7 to the financial statements, the statements of receipts and payments reflects other grants and transfers totalling to Kshs.39,686,835. The expenditure includes an amount of Kshs.27,586,000 which was disbursed as bursary to educational institutions. Review of records revealed that application forms lacked key supporting documents such as copy of beneficiary`s student identity card, fee statement balance and admission letter and the sub-committee members failed to include remarks on the status of each applicant.

Consequently, the accuracy, completeness and validity of the expenditure amounting to Kshs.27,586,000 which was incurred as bursary disbursements for the year ended 30 June, 2019 could not be confirmed.

6. Unsupported Summary Statement of Appropriation

The summary statement of appropriation: recurrent and development combined reflects original expenditure budget amounting to Kshs.109,040,876 and an adjustment totalling

to Kshs.62,601,044 bringing the total approved expenditure budget total to Kshs.171,641,920. However, the adjustments to the budget were not supported with approved code list indicating the individual components/projects to be funded in 2018/2019 financial year.

In the circumstance, the accuracy, completeness and validity of the adjustments in the summary statement of appropriation totalling to Kshs.62,601,044 for the year ended 30 June, 2019 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 - Kuria West 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: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.171,641,919 and Kshs.103,601,043 respectively resulting to an under-funding of Kshs.68,040,876 or 40% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.171,641,920 and Kshs.83,487,482 respectively resulting to an under expenditure of Kshs.88,154,438 or 51% of the budget.

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

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has indicated the matters as resolved even though Parliament has not deliberated on the issues. This is contrary to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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 matter 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

Unsatisfactory Implementation of Projects

Physical verification of twenty-eight (28) projects with disbursements amounting to Kshs.24,036,580 revealed that some of the projects were complete and in use, some were complete but not equipped, while others were partly funded hence incomplete, and not in use as indicated in **Appendix I**.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the unused projects.

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 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 financial reporting process, reviewing the effectiveness of how the Fund 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 overall 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 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 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 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

14 September, 2021

Appendix I: Unsatisfactory Implementation of Projects

| Payee | Activity | Amount (Kshs.) | Completion Level (%) | Remarks |
|--------------------------------------|--|-----------------------|-----------------------------|---|
| NGCDF Office | General renovation of NGCDF office block, floor and construction a car park. | 3,836,580 | 95 | -Project file and BQ were not provided for audit. -Retention money was not deducted. -Project was completed and in use. |
| Kubweye Mixed Secondary School | Supply of lockers to the school. | 500,000 | 100 | -The school management confirmed to have received the lockers from NG-CDF. -The lockers were not branded. |
| Masaba Secondary School | Supply of water to the school. | 4,000,000 | 45 | -Authority from County Government and CDF Board to undertake the devolved function was not provided for audit. |
| Giosahi Primary School | Construction of one classroom. | 600,000 | 65 | -Project was completed and in use. -Not yet branded. |
| Keburui Primary School | Constructio of one classroom. | 600,000 | 55 | -Project was completed and in use. -Not yet branded. |
| Nyamagagana Primary School | Construction of one new classroom. | 500,000 | 70 | -Project was ongoing - flooring, plastering, windows and doors were yet to be done. -Not yet branded. |
| Nyatira Primary School | Construction of new twin house. | 800,000 | 85 | -Twin house was complete and in use. -Project was not yet branded. |
| St Mathias Kohanga Primary School | Construction of one additional classroom. | 600,000 | 85 | -Project was competed and in use. -Not yet branded |
| Taranganya Girls Primary School | Casting slab of an ongoing storey dormitory. | 1,000,000 | 75 | -Slab of the dormitory was casted. -Project was not put to intended use. -Branding was not done. |
| Kehancha Primary School | Construction of new twin house. | 500,000 | 85 | -Project is ongoing. |
| Nyabikuria West Girls Primary School | Plastering, roofing and completion of laboratory. | 500,000 | 70 | -Plastering and roofing of laboratory was done. -Project is yet to be completed. -Branding was not done. |

| Payee | Activity | Amount (Kshs.) | Completion Level (%) | Remarks |
|--------------------------------------|--|-----------------------|-----------------------------|--|
| Kiburanga Primary School | Casting of lintel, roofing and plastering of administration block. | 700,000 | 95 | -Project was completed and put to intended use. -Not yet branded. |
| Nyabikuria West Girls Primary School | Plastering, flooring, painting and fitting of a dormitory | 900,000 | 80 | -Project is ongoing. -Branding was not done. |
| Nyamagagana Secondary School | Flooring, fixing of shutters and equipping laboratory | 700,000 | 90 | -Equipment for use are yet to be supplied. -Branding was not done. |
| Kugisingisi Mixed Secondary School | Roofing, plastering, flooring and equipping of school dormitory | 800,000 | 95 | -Dormitory is yet to be equipped with beds for boarders. -Branding was not done. |
| Iraha Mixed Secondary School | Plastering and flooring of four classrooms | 800,000 | 100 | -Project was completed and in use. -Branding was done. |
| St Mathias Nyancho Secondary School | Construction of one classroom and plastering of another classroom. | 800,000 | 40 | -Works done were not as per the code-list and funding disbursed. -Funds were diverted to the completion of a twin staff house. -Project was not branded. |
| Nyabokarange Secondary School | Construction of additional classroom | 600,000 | 100 | -Project was completed and put to intended use. |
| Gwikonge Mixed Secondary School | Construction of additional classroom. | 600,000 | 95 | -Project was completed and put to intended use. -Project was not branded. |
| Nyamaharaga Mixed Secondary School | Roofing and completion of school dormitory. | 500,000 | 75 | -Doors and windows were fixed. -Plastering was yet to be done. -Branding was not done. |
| Kumumwamu Administration Police Post | Construction of office block. | 600,000 | 45 | -Brick walls, lintel and slab were done. -Armory was not satisfactorily done. - Roofing, plastering, windows and doors were yet to be fixed. -Contractor was not on site. -Project was not branded. |
| Bugumbe West Chiefs Office | Plastering, painting and furnishing of the office. | 800,000 | 95 | -Plastering and painting was completed. -Not yet furnished. -Branding was not done. |

| Payee | Activity | Amount (Kshs.) | Completion Level (%) | Remarks |
|--|--|-----------------------|-----------------------------|---|
| Nyamosense Administration Police Post | Construction of administration police houses | 900,000 | 20 | Construction is yet to be started. -Site has no signboard. |
| Komosoko Assistant Chiefs Office | Plastering, fixing panes and painting. | 600,000 | 100 | -Project was satisfactorily completed. -Project was not branded. |
| Isibania OCS Residence | Painting, wiring and plumbing of OCS residence | 400,000 | 55 | -Painting was not done. -Power was not yet connected. -Branding was not done. |
| Isibania Sub-Location Assistant Chief's Office | Construction of Assistant Chief's Office | 600,000 | 45 | -Doors, windows and roofing are yet to be done. -Project has stalled. |
| Bukira North Chiefs Office Renovation | Re-roofing of blown out roof and plastering | 300,000 | 95 | -Reroofing, plastering and painting was completed. -Not yet branded. |
| | Total | 24,036,580 | | |