

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MATUGA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Matuga Constituency set out on pages 6 to 29, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and a 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 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 - Matuga Constituency as at 30 June 2018, 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.

### **Basis for Qualified Opinion**

#### **1.0 Use of Goods and Services**

##### **1.1 Committee allowances**

Note 5 to the financial statements for the year ended 30 June 2018 reflects use of goods and services amounting to Kshs.13,368,428. This amount includes Kshs.4,129,183 incurred on committee expenses. Records availed for audit indicated that the committee held 51 meetings against the maximum 24 meetings provided for by Section 43(11) of the National Government Constituency Development Fund Act 2015 which requires that a constituency committee shall meet at least six times in a year but the committee shall not hold more than twenty-four meetings in the same financial year. This resulted to an irregular expenditure of Kshs.745,000.

Further the Fund Accounts Manager, District Accountant, Deputy District accountant, Chief, Deputy county commissioner, Procurement Officer and Works Officer were paid

allowances totaling to Kshs.507,000. The Management failed to explain how ex officio and officers not employed by the board were paid allowances.

Consequently, it has not been possible to confirm the regularity and validity of Kshs.4,129,183 incurred on committee allowances for the year ended 30 June 2018.

## **2.0 Cash and Cash Equivalent**

The statement of assets as at 30 June 2018 reflect a bank balance of Kshs.3,231,768. The bank reconciliation statement presented for audit revealed that there were payments in the cashbook not in bank statement amounting to Kshs.3,406,346 out of which cheques amounting to Kshs.93,170 were stale and not reversed in the cash book as at the time of audit.

Further, the bank reconciliation reflected an amount of Kshs.22,029.55 being payments made in the bank statement not recorded in the cash book. No explanation was given as to why the amounts were not accounted for in these financial statements.

Consequently, the accuracy and completeness of bank balance of Kshs.3,231,768 as at 30 June 2018 could not be confirmed.

## **3.0 Outstanding Imprest**

The statement of assets as at 30 June 2018 reflect outstanding imprest of Kshs.150,000. Records availed for audit indicate that the imprest was advanced to a government employee in March 2018 who has since been transferred. Although the Fund Manager has written to the principal secretary Ministry of Interior and Coordination of National Government, the amount had not been surrendered as at March 2019. It was not clear how an officer who is not an employee of the board was directly advanced Imprest.

Consequently, the recoverability of outstanding imprest of Kshs.150,000 as at 30 June 2018 is doubtful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Matuga Constituency in accordance with ISSAI 30 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## Other Matter

### 1.0 Budgetary Control and Performance

#### 1.1 Revenue Budget Analysis

During the year under review, National Government Constituencies Development Fund – Matuga Constituency had a revenue budget of Kshs.99,144,654 against actual receipts of Kshs.43,905,172 or 44%, resulting to an under disbursement of budget of Kshs.55,239,482 or 56% from the Constituency Development Fund Board. The management explained the delay was caused by the CDF Board’s failure to release funds in time.

Failure by the Board to disburse funds as per the budget, may adversely affect delivery of goods and services to the residents of Matuga Constituency contrary to values and principles of public service as provided for under Article 232 (1 - c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

#### 1.2 Expenditure Budget Analysis

During the year under review, National Government Constituencies Development Fund – Matuga Constituency had a final expenditure budget of Kshs.99,144,655 and actual expenditure of Kshs.41,578,403, resulting to net under expenditure of Kshs.57,566,252 being 58% as summarized below:

<b>Expenditure</b>	<b>Budgeted Kshs</b>	<b>Actual Expenditure Kshs</b>	<b>Utilization Kshs</b>	<b>% Under Utilization</b>
Compensation of Employees	2,517,200	2,468,759	48,441	2%
Use of goods and services	14,016,657	13,368,428	648,229	4%
Transfers to Other Government Units	45,092,630	6,128,630	38,964,000	86%
Other grants and transfers	32,314,869	19,492,586	12,822,283	40%
Acquisition of Assets	526,272	120,000	406,272	14%
Other Payments	4,677,027	-	4,677,027	100%
<b>Totals</b>	<b>99,144,655</b>	<b>41,478,403</b>	<b>57,666,252</b>	<b>58%</b>

From the above analysis, Kshs.57,666,252 was unspent funds as at 30 June 2018. The under expenditure of Kshs.57,666,252,396 or 58% may have curtailed delivery of goods

and services to the residents of Matuga Constituency. This may affect delivery of goods and services to the residents of Matuga Constituency contrary to values and principles of public service as provided for under Article 232 (1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services. There is need therefore for the management to relook at its budget making process with a view to focusing on the priority projects which will be implemented during the year for effective and efficient service delivery to the residents of Matuga Constituency.

### **1.3 Project implementation Status**

The project status report availed for audit review indicated that a total of Kshs.50,989,657 was approved for 32 projects by the national Government constituency Development Fund board for project implementation.

A review of the project status report indicated that:

- i) 7 projects with an allocation of Kshs.15,648,630 were initiated and completed during the year under review.
- ii) 25 project allocated Kshs.35,341,027 had not been started due to non release of funds from the board.

Slow implementation of projects due to late disbursements or no disbursements greatly affects the delivery of services to the residents of Matuga Constituency.

### **1.4 Projects Inspection**

#### **1.4.1 Matuga Girls' Secondary School**

As reported previously the statement of receipts and payments for the year ended 30 June 2017 reflects an amount of Kshs.73,021,858 in respect of transfers to other government units out of which Kshs.29,664,412 was transfers to secondary schools. Out of this amount Kshs10,400,809.55 was indicated to have been transferred to Matuga Girls project management committee account for the completion of a modern administration block. The project bank statements availed for audit review, however, revealed that only Kshs.6,626,633.60 was received, as per the approved budget, to the project account leaving the balance of Kshs.3,774,175.95 paid vide voucher number 290258 and cheque no.2028 dated 6 April 2017 not accounted for.

Further, in the year 2015/2016, Kshs.18,626,633 had been disbursed towards the project bringing the total funding to date to Kshs.29,027,442.50 whereas the revised contract sum was indicated to be Kshs.18,626,634 again resulting to disbursement of excess of Kshs.10,400,808.50 above the contract sum.

A project site inspection on 27 February 2019 of Matuga Girls Secondary school revealed that the contractor was not on site and no works were ongoing despite the project being

incomplete. The completion stage was observed not to have changed since the last audit site visit on the month of April 2017 of which it was observed that plastering and electrical works were on going indicating the works had since stalled.

Bank statement availed for audit indicated that the project had a bank balance of Kshs.2,360,356. However, the project was excluded from annex 4 PMC Bank balances. Consequently, the value for money for this project and propriety of Kshs.10,400,809.55 transferred to Matuga Girls Secondary School for the year 30 June 2017 could not be confirmed.

#### 1.4.2 Other Projects Verification

During the audit seven (7) projects with a total disbursement of Kshs.10,078,63 were inspected in the month of march 2019 and the following issues were noted;

	<b>Project Name</b>	<b>Details of Project</b>	<b>Cost of Project Kshs.</b>	<b>Audit Verification</b>
1	Rose Mwakwere Girls' secondary school	Construction of 3 No. classrooms to completion	4,050,000	Project was found to have been completed and in use.
2	Mkongani secondary school	Renovation of 2 No. classrooms; Re-roofing, floor screeding, plastering & painting	728,630	Classes were done and completed and in use. No proper PMC file maintained.
3	Kubo Police station	Renovation of a Police station; Re-roofing, floor screeding, fixing of ceilings & paintings	2,500,000	Project was completed and handed over and in use.
4	Mwaluphamba secondary school	Completion of Administration block; Roofing, plastering, painting, fixing	2,000,000	Project on going but still need more funds. The bill of quantities does not have soak pit yet the block has flash toilets. It was observed that the roof timber was not treated and ceilings

	<b>Project Name</b>	<b>Details of Project</b>	<b>Cost of Project Kshs.</b>	<b>Audit Verification</b>
		doors & windows		were being fitted. The contractor should treat timber before installing the ceilings
5	Vuga Primary School	Construction pit latrines	500,000	Done and completed. In use
6	Madibwani Primary School	Construction of two door pit latrine.	200,000	Toilets done but were not plastered, no doors and the workmanship was poor.
7	Golini Secondary School	Construction of pit latrines after ones in use sank.	100,000	Project not branded
		<b>Total</b>	<b>10,078,630</b>	

There is still need for proper planning and follow up to ensure that all projects are properly executed as per Bills of quantities and within the timelines to avoid unnecessary delays.

## 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 Qualified Opinion/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

#### Project Management Committee Accounts

Annex 5 to the financial statements for the year ended 30 June 2018 reflects 6 Project Management Committee (PMC) bank accounts holding total bank balance of Kshs.3,130,018 as at 30 June 2018. The comparative column for the year 2016/2017 reflects six projects with a total of Kshs.280,373 while certified accounts the year 2016/2017 indicated 44 projects with a balance of Kshs.8,441,261 resulting to a unreconciled or explained variance of Kshs.8,160,888. Further, the management failed to provide evidence that the project had been closed and handed over in line with Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which

requires that unutilized funds of the Project Management Committee shall be returned to the constituency account.

Consequently, the accuracy and completeness of the six (6) project management committee bank balance of Kshs.3,130,018 as at 30 June 2018 and the compliance with the law 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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

### **Conclusion**

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 National Government Constituency development Fund – Matuga constituency ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to

liquidate the National Government Constituency development Fund – Matuga constituency or to cease operations, or have no realistic alternative but to do so.

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 National Government Constituency development Fund – Matuga constituency 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 noncompliance. 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 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 National Government Constituency Development Fund – Matuga Constituency ability to continue as a going concern or 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 National Government Constituency Development Fund - Matuga Constituency to cease to continue as a going concern or 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 National Government Constituency Development Fund – Matuga Constituency 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**16 April 2019**