

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MBEERE SOUTH 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 - Mbeere South Constituency set out on pages 9 to 34, which comprise of the statement of 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 - Mbeere South 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. Inaccuracies in Financial Statements**

The statement of receipts and payments reflects total receipts of Kshs.48,068,656, whereas the summary statement of appropriation: recurrent and development reflects total receipts of Kshs.74,806,348 resulting to unreconciled variance of Kshs.26,737,692. Further, the statements reflect compensation of employees' balance of Kshs.1,921,481. However, Note 14 to the financial statements in support of the balance reflects amount of Kshs.1,891,481 after casting resulting to an uncorrected error of Kshs.30,000.

In addition, as disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.8,657,797. However, the bank reconciliation statement reflected unrepresented cheques totalling to Kshs.1,773,450 which included stale cheques amounting to Kshs.156,510. These cheques had not been replaced or reversed in the cashbook as at 30 June, 2019, thereby understating the cashbook balance. The bank reconciliation statement reflected Kshs.44,000,000 in respect to receipts in bank statements not in the cashbook thereby understating the cashbook balance. Management did not provide the certificate of bank balance.

Consequently, the accuracy, completeness and validity of the financial statements for the year ended 30 June, 2019 could not be confirmed.

## **2. Unsupported Bank Balances**

The summary statement of appropriation: development reflects payments totalling to Kshs.55,224,632 which was disbursed to various institutions to implement projects through Project Management Committees (PMC). Disclosed in Note 15.4 and Annex 3 to the financial statements is PMC bank balances of Kshs.19,304,891 as being unspent project funds. However, cashbooks, bank certificates and bank reconciliation statements were not provided.

In the circumstances, the accuracy, completeness and validity of PMC bank balances of Kshs.19,304,891 as at 30 June, 2019 could not be confirmed.

## **3. Unsupported Other Grants and Transfers**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.26,405,375. The balance includes an amount of Kshs.1,500,000, under emergency projects, disbursed to thirty (30) primary schools for Phase Two (2) of the emergency funds disbursement for the year 2017/2018. However, reports on urgent unforeseen situations, approved requisitions and documents showing how the funds were utilized were not provided.

Further, the balance includes bursaries totalling to Kshs.16,902,300 to secondary schools and tertiary institutions. However, bursaries totalling to Kshs.13,413,900 were not acknowledged by the recipient institutions by issue of receipts. Bursaries amounting to Kshs.196,000 were issued to thirty-two (32) students whose admission numbers were not included in the bursaries list.

In addition, names of Bursary Committee Members and how they were approved by the Constituency Development Funds Committee (CDFC), bursary committee minutes, application letters and criteria for awarding bursary were not provided.

In the circumstances, the accuracy, completeness and validity of expenditure on emergency amounting to Kshs.1,500,000 and bursaries amounting to Kshs.13,413,900 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 - Mbeere South 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.190,306,634 and Kshs.74,806,348 respectively resulting to an under-funding of Kshs.115,500,286 or 61% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.190,306,634 and Kshs.66,148,551 respectively resulting to an under expenditure of Kshs.124,158,083 or 65% of the budget. Management attributed the underfunding to unreleased funds from NGCDF Board.

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 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: 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 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. Project Implementation Status**

The project implementation status report indicated that one hundred and seventy-nine (179) projects costing Kshs.173,898,343 were budgeted for implementation during the year under review. However, no project had been completed. Fifty-one (51) projects costing Kshs.106,584,939 were ongoing while one hundred and twenty-eight (128) projects costing Kshs.67,313,404 had not started as at 30 June, 2019.

In the circumstances, I am unable to confirm whether and when the public will get value for money for the projects worth Kshs.173,898,343 for the year ended 30 June, 2019.

## **2. Irregular Funding of Projects**

### **2.1. Funding of Primary School**

Management transferred an amount of Kshs.750,000 to Kaninwanthiga Primary School for construction of an administration block. However, a review of the bid documents revealed that all the three (3) firms which quoted for the works shared the same postal and physical addresses raising doubts on the competitiveness of the procurement process. This is contrary to Section 83(1) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that an evaluation committee may, after tender evaluation, but before award of the tender, conduct due diligence.

In addition, physical verification carried out in December, 2019 revealed that the project had not been completed due to underfunding and no additional funding for the project was allocated in the approved budget for 2019/2020 financial year.

### **2.2. Funding of Secondary School**

Management transferred an amount of Kshs.800,000 to Mbita Secondary School for the completion of the Principal's house. A review of the tender evaluation minutes revealed that three (3) of the bidders shared the same postal address raising doubt on the competitiveness of the whole procurement process. This is contrary to Section 83(1) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that an evaluation committee may, after tender evaluation, but before award of the tender, conduct due diligence.

Further, a request for quotations procurement method was used contrary to the Public Procurement and Asset Disposal (amendment) Regulations, 2006 which sets the maximum limit for use of request for quotations at Kshs.500,000.

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

## **3. Delay in Implementation of Security Project**

The Management disbursed an amount of Kshs.300,000 to Kithunthiri Assistant Chief's Office in February, 2019 for completing an existing Chief's Office. However, physical verification carried out in December, 2019 revealed that the office was not complete and the funds had not been utilized.

In the circumstances, I am unable to confirm when the public will obtain value for the unutilized funds.

## **4. Emergency Projects**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling Kshs.26,405,375 which includes Kshs.4,533,247 in respect to emergency projects. The following unsatisfactory observations were made:

### **4.1 Nguru - Kaninwanthiga Road**

The balance includes an amount of Kshs.2,000,000 spent for the grading and gravelling of Nguru - Kaninwanthiga road which is a county government function as stipulated by Part 2 of Section 5 (a) of the Fourth Schedule of the Constitution of Kenya, 2010. Bank statements and report on urgent unforeseen situation were not provided contrary to Section 8(3) of the National Government Constituencies Development Fund (NG-CDF) Act, 2015 which stipulates that expenditure on emergency should be for an urgent, unforeseen need for expenditure which in the opinion of the constituency committee cannot be delayed until the next financial year without harming the public interest of the constituents.

Further, a report on utilization of emergency reserve to the Board as required by Section 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which states that utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency was not provided for audit review.

### **4.2 Kiamuringa Secondary School**

The balance includes Kshs.342,500 disbursed to Kiamuringa Secondary School for repairing a burnt dormitory. However, evidence to confirm that there was a burnt dormitory including a police abstract was not provided for audit review. Further, the contract for repairing the burnt dormitory was awarded to a firm, but tender documents, evaluation committee minutes and tender opening committee minutes showing how the firm was identified were not provided for audit review. Therefore, the works appears to have been single sourced contrary to Section 58(2) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that tender documents used by a procuring entity should contain sufficient information to allow fairness, equitability, transparency, cost-effectiveness and competition among those who may wish to submit their applications.

In the circumstances, the Management is in breach of the law and the value for money for the expenditure totalling Kshs.2,000,000 for the road and Kshs.342,500 for the school for 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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **Weakness in Management of Fixed Assets**

Annex 2 to the financial statements reflects historical cost of the fixed assets of Kshs.31,612,775. However, review of the fixed assets registers and physical verification of the assets revealed that the assets were not tagged for ease of identification and movement.

Further, there were no preventive mechanisms in place to eliminate theft, security threats, losses, wastage and misuse by ensuring that movement and conditions of assets can be tracked by putting in place processes and procedures both electronic and manual for the effective, efficient, economical and transparent use of the government asset.

In the circumstances, I am unable to confirm existence of effective internal controls on fixed assets.

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 dissolve 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**

**07 September, 2021**