

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KALOLENI 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 - Kaloleni Constituency set out on pages 12 to 40, 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 - Kaloleni 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**

#### **Unreconciled Bank Balance**

The statement of assets and liabilities as at 30 June, 2019 reflects a bank balance of Kshs.26,366,205. However, reflected in the supporting reconciliation statement as at 30 June, 2019 are unrepresented cheques amounting to Kshs.816,962, of which bank statements to confirm subsequent clearance by the bank were not provided for audit verification. Further, the reconciliation reflects payments in bank statement not yet recorded in cash book of Kshs.10,000. No explanation has been provided for the failure to record the payments in the cash book.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.26,366,205 as at 30 June, 2019 could not be ascertained.

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

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There are no key audit matters to report in the year under review.

## Other Matter

### Budgetary Control and Performance

The Fund's revenue budget for the year under review was Kshs.191,194,670 against total actual receipts of Kshs.126,353,794, resulting to budget under funding of Kshs.64,840,875 or 34%. The under collection of the budget is an indication that projects have not been funded as planned.

In addition, the Fund's overall expenditure budget for the year under review was Kshs.191,194,670 against total actual expenditure of Kshs.99,987,589, resulting to budget under absorption of Kshs.91,207,080 or 48% of the budget. The under absorption of the budget is an indication of improper planning and implementation of projects.

The under collection and underutilization of funds may have impacted negatively on the delivery of goods and services to the citizens of Kaloleni.

## 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 of Conclusion

#### 1.0 Project Implementation Status

##### 1.1 Projects Not Started

A review of the project implementation status report as at 30 June, 2019 revealed that two (2) projects with a total budget of Kshs.5,281,511 had not started as summarized below:

Financial Year	Name of Project	Activity to be Done	Project Cost (Kshs.)	Status
2016/2017	Mnanzi Mwenga Secondary School bus Project	Purchase of a school bus	3,000,000	Project not started
2017/2018	Kaloleni NG CDF Environment	Tree seedlings	2,281,511	Project not started

<b>Total</b>	<b>5,281,511</b>
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The above state of affairs is an indication of lack of proper planning and prioritizing citizens' needs in the budget making process. Service delivery to the residents of Kaloleni Constituency and the intended purpose of the projects may not be realized.

## 1.2. Delay in Project Completion

During the year under review, ten (10) projects costing Kshs.37,791,045 were inspected by our audit team in the month of January, 2020. However, out of the ten (10) projects, eight (8) projects costing Kshs.25,157,557 were complete and in use, one (1) project costing Kshs.9,633,488 was complete but not in use while one (1) project costing Kshs.3,000,000 had not started. The ongoing project and the project not started are as detailed below;

S.No	Project Title	Project Activities / Detailed Specifications	Budget (Kshs.)	Year of Allocation	Project Cost (Kshs.)	Status
1	Proposed construction of dormitory at St. Michael Primary	Construction of dormitory at St. Michael Primary	10,000,000	2017/2018	9,633,488	Complete but not in use. Awaiting installation of water
2	Purchase of a school bus - Mnazi-mwenga Secondary School	Purchase of a school bus	3,000,000	2016/2017	3,000,000	Not done, awaiting completion of procurement process
	<b>Total</b>		<b>13,000,000</b>		<b>12,633,488</b>	

Failure to complete the projects in a timely manner is an indication of poor planning and implementation of approved projects. Delay in use of the completed dormitory at St. Michael's Primary School means value for money totalling Kshs.9,633,488 spent on the same for the year ended 30 June, 2019 could not be realized by the residents and students of Kaloleni Constituency.

## 2. Idle PMC Bank Balances

Annex 5 to the financial statements for the year ended 30 June, 2019 reflects project management committee bank balances amounting to Kshs.20,997,178, out of which bank balances of Kshs.231,646 held in Co-operative Bank of Kenya Limited were lying idle in the bank accounts since the projects had been completed as detailed below:

No.	Project Management Committee (PMC) Unutilized Fund Balances	Bank Balance as at 30 June, 2019 (Kshs.)
1.	Kaloleni NG-CDF Emergency Water	13,075
2.	Mwambani Primary School	4,221
3.	Shangia Primary School	517
4.	Kidzini Primary School	869

<b>No.</b>	<b>Project Management Committee (PMC) Unutilized Fund Balances</b>	<b>Bank Balance as at 30 June, 2019 (Kshs.)</b>
5.	Migunduni Primary School	1,230
6.	Kizuruni Primary School	2,271
7.	Mtulu Primary School	4,116
8.	Bikidzaya Primary School	2,720
9.	Kibao Kiche Prmary School	59
10.	Mwareni Secondary School	1,259
11.	St.John's Girls Sec School	88,887
12.	Mariakani's Chief Office	996
13.	Chanagande Primary School	847
14.	Mbalamweni Assistant Chief's Office	110,579
<b>Total</b>		<b>231,646</b>

This is contrary to Section 12(8) of National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account.

Therefore, the Management was in breach of the law.

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 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.

### 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 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 the 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 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 Fund's 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 Fund's 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 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 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 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**04 October, 2021**