

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KANDUYI 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 - Kanduyi Constituency set out on pages 7 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 - Kanduyi Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the 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 Compensation of Employees

As disclosed in Note 2 to the financial statements, the statement of receipts and payments reflects compensation of employees' comparative balance of Kshs.4,514,010 which differs with a total of Kshs.4,074,115 reflected in the previous year's audited financial statements leading to an unreconciled variance of Kshs.439,895. Further, the comparative balance differs with the computed amount of Kshs.4,411,464 resulting to an unreconciled variance amounting to Kshs.102,546 equivalent to employer contribution to National Social Security Fund.

In the circumstances, the accuracy, completeness and validity of compensation of employees' comparative balance totalling to Kshs.4,514,010 reflected in the in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

#### 2.0 Use of Goods and Services

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.8,366,842. The following unsatisfactory matters were noted:

## 2.1 Unsupported Expenditure

The balance includes an expenditure totalling to Kshs.5,629,342, incurred under the various economic items which were not supported by expenditure returns as detailed below:

Item	Amount Kshs.
Utilities, Supplies and Services	235,000
Communication, Supplies and Services	358,710
Domestic Travel and Subsistence	150,000
Printing, Advertising and Information Supplies & Services	1,700,000
Hospitality Supplies and Services	876,500
Office And General Supplies and Services	743,200
Other Operating Expenses	864,432
Routine Maintenance - Other Assets	475,000
Committee Expenses	226,500
<b>Total</b>	<b>5,629,342</b>

Although Management have explained that these items were accounted for in the expenditure returns under goods and services and training expenses the accounting differ with the chart of accounts approved by The National Treasury. Further, detailed budget for the expenditure was not provided.

## 2.2 Inaccuracies in Account Balances

Further, the Management spent an amount of Kshs.400,000 on fuel, oil and lubricants during the year under review and an amount of Kshs.489,700 in the previous year. However, these amounts were erroneously accounted for in the previous year's financial statements under other operating expenses instead of fuel, oil and lubricants.

In addition, routine maintenance – other assets comparative balance of Kshs.878,247 was disclosed under routine maintenance – vehicle and other transport equipment.

In the circumstances, the accuracy, completeness and validity of use of goods and services totalling to Kshs.8,366,842 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

## 3. Inaccuracy in Fund Balance and Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents and fund balance comparative balance totalling to Kshs.50,753, while the previous year's audited financial statements reflected comparable balance amount of Kshs.490,648. Management has explained that the resulting variance amount of Kshs.439,895 arose from understatement of compensation of employees in the previous year but no explanation was provided for not including prior year adjustment in the statement of assets and liabilities for the year under review.

In the circumstances, the accuracy, completeness and validity of cash and cash equivalents and fund balance comparative balance totalling to Kshs.50,753 each as at 30 June, 2019 could not be confirmed.

#### **4.0 Variance in the Summary Statement of Appropriation**

##### **4.1 Summary Statement of Appropriation and Project Implementation Status**

The summary statement of appropriation - recurrent and development combined reflects payments totalling to Kshs.65,195,582, while the Project Implementation Status (PIS) report as at 30 June, 2019 showed disbursements totalling to Kshs.107,040,876, resulting in an unreconciled and unexplained variance totalling to Kshs.41,845,296.

##### **4.2 Budget Execution by Programmes and Sub-programmes**

The report on budget execution by programmes and sub-programmes reflects original budget, adjustments, final budget and budget utilization difference totalling to Kshs.291,800,122 which differ on comparable basis with amount shown in the summary statement of appropriation - recurrent and development combined totalling to Kshs.313,425,857 resulting to unreconciled variance amounting to Kshs.21,625,735.

##### **4.3 Unutilized Funds**

Note 8.1 and Annex 1 to the financial statements reflect unutilized funds for the year under review amounting to Kshs.57,011,563, while the summary statement of appropriation - recurrent and development combined shows unutilized budget allocation totalling to Kshs.61,510,589, resulting to an unexplained and unreconciled variance of Kshs.4,499,026.

In the circumstances, accuracy, completeness and validity of the balances reflected in the summary statement of appropriation for the year ended 30 June, 2019 could not be ascertained.

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

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects transfers to other Government Units amount of Kshs.16,600,000. The balance includes expenditure on six (6) projects totalling to Kshs.7,875,000 at various institutions. However, the Project Management Committees (PMC) did not provide procurement and payment documents, including opening of tender minutes, tender evaluation minutes, professional opinion, letter of acceptance of award, contract agreement between the PMC and the Contractor, design and drawing of the projects, inspection and acceptance report and payment certificates from the Works Department.

Further, during physical verification as at the time of the audit, several unsatisfactory issues were noted as shown in **Appendix I**.

In the circumstances, accuracy, completeness and validity of the balances incurred on the projects totalling to Kshs.7,875,000 for the year ended 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 the National Government Constituencies Development Fund – Kanduyi 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.126,207,146 and Kshs.65,202,477 respectively, resulting to an under-funding of Kshs.61,004,669 or 48% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.126,207,146 and Kshs.65,195,582 respectively, resulting to an under expenditure of Kshs.61,011,564 or 48% 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. Management has indicated the issues as resolved. However, Parliament has not discussed the report.

### **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. Non-compliance with the Public Sector Accounting Standards Board Requirements**

The annual report and the financial statements contain the following anomalies; not all balances have not been rounded off to the nearest shilling and budget execution by programmes and sub-programmes does not reflect grand totals. Further, the summary statement of appropriation - recurrent and development combined reflects budget utilization of 106% against use of goods and services but no explanation was provided under budget Notes as required by the reporting template. In addition, progress on follow-up of auditor recommendation schedule at Appendix X to the financial statements for the year under review does not include issues reported in the final report of the Auditor-General for the year ended 30 June, 2018. This is contrary to the accounting framework recommended by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the annual report and the financial statements for the year under review is not in accordance with the prescribed PSASB format.

## **2. Irregular Emergency Projects Expenditure**

The Project Implementation Status report as at 30 June, 2019 indicated that during the year under review, an amount of Kshs.2,350,000 was utilized from the Emergency Reserve for construction of one classroom each at Lumasa Primary School and Namamuka Secondary School and for youth sports activities within the Constituency. However, no disclosure was made in the financial statements as to why implementation of these projects was an emergency to warrant use of Emergency Reserve Fund as per the National Government Constituencies Development Fund Act, 2015 threshold.

In the circumstances, it has not been possible to determine whether, the amount totalling to Kshs.2,350,000 was spent on valid emergency projects.

## **3. Lack of Fixed Assets Insurance**

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects nil insurance expenses a decreased from a total of Kshs.463,100 in the year 2017/2018. This was an indication that the Management did not insure fixed and moveable assets totalling to Kshs.26,895,226, shown in Annex 2 to the financial statements. This is contrary to Section 36(3) of the National Government Constituencies Development Fund Act, 2015 which stipulates that all fixed and movable assets, including equipment bought under this Act for use by the Constituency Committee shall be the property of the Board and shall be insured in the name of the Board.

The Management was therefore in breach of the law.

## **4. Delay in Project Implementation**

The Project Implementation Status (PIS) report as at 30 June, 2019 showed that Buumba Wecheka bridge was allocated an amount of Kshs.2,000,000 in the financial year 2015/2016 and another Kshs.2,000,000 in the year under review. However, according to the PIS report, out of the Kshs.4,000,000 allocations, no funds had been disbursed towards the construction of the bridge and the project remained at 70% completion level.

Consequently, the public may not have achieved value for money on the expenditure incurred on the bridge.

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.



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

**Nairobi**

**05 October, 2021**

## Appendix I: Unsupported Projects

Project Name	Contract Amount Kshs.	Amount Paid during the Year Kshs.	Amount Paid to Date Kshs.	Observation
Nakayonjo Primary School- construction of two (2) classrooms	1,400,000	700,000	1,400,000	Contractor used gauge 28 of iron sheet instead of gauge 30
Friends Secondary School Misinga- construction of administration block	19,500,000	700,000		Materials purchased were not taken on charge
St. Mary Magdalene Siloba Secondary School- construction of three (3) classrooms	4,556,451	1,000,000	2,849,261	Contractor used gauge 28 of iron sheet instead of gauge 30
Namamuka Secondary School- construction of three (3) classrooms	2,331,895	300,000		Tendering for labour was irregularly done by the Fund Management, instead of the school's PMC. Project design, detailed bills of quantities and store records were not provided
Siritanyi Secondary School- Purchase of land	1,000,000	1,000,000	1,000,000	Professional opinion and notification of award and title deed not provided
ACK The Good Shepherd Secondary School- Purchase of land	4,175,000	4,175,000	4,175,000	Professional opinion and notification of award and title deed not provided
<b>Total</b>		<b>7,875,000</b>		