

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KATHIANI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kathiani Constituency set out on pages 12 to 47, which comprise of the statement of assets and liabilities as at 30 June, 2020, 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 - Kathiani Constituency as at 30 June, 2020, 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 the Statement of Assets and Liabilities**

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balances totalling to Kshs.48,481,922. The bank reconciliation statements revealed unrepresented cheques totalling to Kshs.9,843,463 which included stale cheques amounting to Kshs.424,835. However, explanation was not provided as to why the cheques had remained unrepresented for long and the failure to write back the stale cheques in the cashbook.

Further, the statement reflects the fund balance brought forward totalling to Kshs.10,125,402 which differs with an amounting to Kshs.10,762,142 disclosed in Note 13 to the financial statements resulting to an unreconciled variance amounting to Kshs.636,740.

In addition, the statement reflects gratuity balance totalling to Kshs.1,032,920 which differs with the amount of Kshs.396,180 disclosed in Note 12B to the financial statements resulting in an unreconciled variance amounting to Kshs.636,740.

Consequently, the accuracy, completeness and validity of the balances reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

## **2. Inaccuracies in the Statement of Appropriation**

The summary statement of appropriation - recurrent and development combined reflects budget utilization difference totalling to Kshs.117,453,467 which differs with the amount of Kshs.117,849,646 disclosed in Note 17.3 to the financial statements as unutilized funds balance resulting in an unexplained variance amounting to Kshs.396,179.

Consequently, the accuracy, completeness and validity of the balances reflected in the summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2020 could not be confirmed.

## **3. Inaccuracies in Committee Account Balances**

Note 17.4 to the financial statements reflects Project Management Committee account balances totalling to Kshs.13,000,000 as at 30 June, 2020 as disclosed in Annex 5. However, the Annex 5 reflects a nil comparative balance which differed with comparative balance total of Kshs.4,396,936 disclosed in Note 17.4. No reconciliation was provided for the variance.

Consequently, the accuracy, completeness and validity of the balances reflected in the Project Management Committee account balances as at 30 June, 2020 could not be confirmed.

## **4. Inaccuracies in Bursaries**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.10,295,086. Included in the balance are bursaries disbursement to secondary schools amount of Kshs.515,186 and tertiary institutions amount of Kshs.429,900, respectively both totalling to Kshs.945,086. However, supporting records reflected bursaries disbursements amount of Kshs.18,312,700 and Kshs.12,050,300 for secondary schools and tertiary institutions, respectively both totalling to Kshs.30,363,000 resulting in an unreconciled variance of Kshs.29,417,914.

Further, the awarded bursaries totalling to Kshs.945,086 was less than 1% of the funds received from the NGCDF Board totalling to Kshs.123,040,876 which is below the threshold of 25% set out in Section 21(5) of the NGCDF Regulations, 2016. The Management did not provide an approved criterion for selection and award of bursaries to the beneficiaries.

In the circumstances, the accuracy, completeness and validity of bursary disbursements totalling to Kshs.945,086 for the year ended 30 June, 2020 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 - Kathiani 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**

#### **Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.203,233,742 and Kshs.133,866,018 respectively, resulting to an under-funding amounting to Kshs.69,367,724 or 34% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.203,233,742 and Kshs.85,780,275 respectively, resulting to an under expenditure amounting to Kshs.117,453,467 or 58% of the budget.

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

## **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. Delay in Project Implementation**

Review of project implementation revealed that funds totalling to Kshs.137,367,724 had been allocated for implementation of forty-nine (49) projects under the 2019-20 budget. However, only twelve (12) projects totalling to Kshs.48,774,000 were completed during the year while thirty-one (31) projects with combined allocation of totalling to Kshs.71,843,724 were on-going and the remaining six (6) projects totalling to Kshs.16,750,000 had not commenced.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the delayed projects during the year ended 30 June, 2020.

## **2. Unsatisfactory Implementation of Projects**

Physical verification of twelve (12) projects with a budget allocation totalling to Kshs.20,800,000 carried out during the audit revealed several unsatisfactory observations as shown in **Appendix I**.

In the circumstances, it has not been possible to confirm the validity and value for money from the expenditure totalling to Kshs.20,800,000 for the year ended 30 June, 2020 which was incurred on the 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.

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

**Nairobi**

**06 January, 2022**

## Appendix I: Unsatisfactory Implementation of Projects

No.	Project	Activity	Cost (Kshs.)	Observations
1.	Kaiani Primary School	-Renovation of eight (8) classrooms and an administration block.	1,850,000	<p>-Only four (4) classrooms were renovated instead of eight (8).</p> <p>-Only seven (7) windows were fixed and three (3) window glass panes were missing.</p> <p>- The floor was poorly done.</p> <p>-Administration block was not renovated and tiles and ceiling were not fitted (only roofing and painting of the front phase was done)</p> <p>- The contract sum was paid in full including retention money.</p>
2.	Miumbuni Primary School	Renovation of twelve (12) classrooms-(re-roofing, fixing doors and windows, plastering and painting)	1,000,000	<p>-The floor of the renovated classes was poorly done.</p> <p>-Re-roofing was only done on ten (10) classrooms and plastering and painting for only eight (8) classes.</p> <p>-Labour based construction method was used and amount paid in full.</p>
3.	Kwale Primary School	Construction of two (2) new classrooms to completion	1,800,000	<p>-The floor was poorly done and the walls had cracks.</p> <p>-Total contract sum including retention money was paid to the contractor.</p>
4.	Muonyweni Primary School	Renovation of seven (7) classrooms and an administration block	2,050,000	<p>-Floor of one classroom was poorly done.</p> <p>-Renovation was not done on the administration block.</p> <p>-The contract sum was paid in full.</p>
5.	Kinyau Secondary School	Completion of multipurpose hall and equipping (tables and benches).	1,000,000	<p>-Benches were yet to be delivered.</p>

No.	Project	Activity	Cost (Kshs.)	Observations
6.	Kalikya Primary School	Renovation of twelve (12) classrooms	2,550,000	-Only ten (10) classrooms were renovated.  - The floor of one classroom was poorly done.  - The full contract sum was paid including retention money.
7.	Kingongoi Primary School	Renovation of eight (8) classrooms.	2,000,000	-Only six (6) classrooms were renovated but contract sum was paid in full including retention money.
8.	Ngoleni Primary School	Renovation of four (4) classrooms.	1,300,000	-The floor of the renovated classrooms was poorly done.  -The walls had cracks and were poorly painted.  -The contract sum was paid in full including retention.
9.	Kauti Primary School	Renovation of ten (10) classrooms	2,500,000	- Eight (8) classrooms instead of ten (10) were renovated but contract sum was paid in full including retention money.
10.	Kikombi Primary School	Renovation of eleven (11) classrooms.	1,850,000	The wall was poorly done and had cracks despite full payment of contract.
11.	General Mulinge Primary School	Renovation of four (4) classrooms.	600,000	There were cracks on the walls of one classroom.
12.	Mbee Primary School	Renovation of eight (8) classrooms.	2,300,000	-The windows for four (4) classrooms were not replaced.  -The walling and plastering was poorly done.
<b>Total</b>			<b>20,800,000</b>	



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

**Nairobi**