

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LURAMBI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019**

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Lurambi Constituency set out on pages 9 to 36, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statements 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 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 - Lurambi 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**

#### **1. Inaccuracies in the Statement of Cash Flows**

The statement of cash flows reflects cash and cash equivalents at the beginning of the year of Kshs.7,522,847 while cash and cash equivalents balance at as at 30 June, 2018 amounted to Kshs.8,704,334 resulting to an unexplained and unreconciled variance of Kshs.1,181,487.

#### **2. Unreconciled Unutilized Funds Balance**

Note 10.3 reflects a comparative figure on unutilized funds of Kshs.82,521,075, while the recalculated amount was Kshs.86,241,075 resulting to an unreconciled difference of Kshs.3,720,000.

Further, the comparative figure of Kshs.82,521,075 differs by Kshs.500,000 with the supporting Annex 3, which has a total of Kshs.82,021,075. The resultant variance has not been explained.

#### **3. Unreconciled Project Management Committee Account Balances**

Note 10.4 to the financial statements reflect an outstanding PMC accounts balance of Kshs.10,265,915 from fifty-seven (57) PMC accounts as per Annex 5 to the financial

statements. However, the cash books, bank reconciliation statements and certificates of bank balances were not availed for audit review.

In the circumstances, the accuracy and completeness of the PMC account balances could not be ascertained.

#### **4. Unconfirmed Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.3,738,260 in respect of cash held at bank as at 30 June, 2019. However, the bank reconciliation statements were not availed for audit review contrary to Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,738,260 as at 30 June, 2019 could not be confirmed.

#### **5. Unsupported Use of Goods and Services**

Included in use of goods and services figure of Kshs.8,509,372 is committee expenses of Kshs.4,373,300 as disclosed in Note 3 to the financial statements. The committee expenses figure of Kshs.4,373,300 includes payments amounting to Kshs.2,145,400 whose payment vouchers and other supporting documents were not provided for audit review.

Consequently, the accuracy and propriety of the committee expenses amount of Kshs.2,145,400 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 National Government Constituencies Development Fund - Lurambi 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 of Kshs.191,561,950 and Kshs.109,488,817 respectively, resulting to an under-funding of Kshs.82,073,133 or 43% of the budget.

Similarly, the Fund spent Kshs.105,750,557 against an approved budget of Kshs.191,561,950 resulting to an under-expenditure of Kshs.85,811,393 or 45% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Lurambi Constituency.

## 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. Slow Works at Mahiakalo Primary School**

The statement of receipts and payments reflects an expenditure of Kshs.68,067,611 in respect to transfers to other government units. The expenditure includes transfers to primary schools amount of Kshs.61,007,611 as disclosed in Note 4 to the financial statements which in turn includes an amount of Kshs.6,000,000 that was disbursed to Mahiakalo Primary School for construction of a new eight (8) class room storey building. Information available indicate that, the contract for the construction of the building was awarded at a contract sum of Kshs.13,975,912. However, the contract documents including tender advertisement, BQs, tender opening minutes, tender evaluation and award minutes were not availed for audit review. Further, there was no information to show how much had been paid as at the time of audit in February, 2020 and the balance if any.

Audit verification carried out in the month of February, 2020 revealed that although the construction was on-going, it is not known when the same shall be completed and put to use. In addition, there was no evidence of project supervision by the State Department of Works.

Consequently, the propriety of the transfer of Kshs.6,000,000 for the year ended 30 June, 2019 could not be confirmed.

#### **2. Stalled Dining Hall at Daisy Special School**

Included in the transfers to primary schools figure of Kshs.61,007,611 as disclosed in Note 4 to the financial statements is an amount of Kshs.1,000,000 disbursed to Daisy Special School in respect to completion of roofing and plastering of the dining hall. The Project which started in the year 2009 has stalled at the lintel level, despite the allocation and disbursement of Kshs.1,000,000 during the financial year under review. In addition, the bank reconciliation statement and certificate of bank balance were not availed to

confirm that the funds disbursed were still being held in the bank, although the same did not appear among the PMC account balances as per Annex 4 to the financial statements.

Consequently, the probity of Kshs.1,000,000 disbursed towards the project during the year under review could not be ascertained.

### **3. Unsupported Works at Emusala Primary School**

Included in the transfers to primary schools figure of Kshs.61,007,611 as disclosed in Note 4 to the financial statements is an amount of Kshs.6,300,000 transferred to Emusala Primary School in respect to construction of new eight (8) class room storey building for sub-structures and walling of 1<sup>st</sup> floor. Information availed indicated that the works were contracted at Kshs.13,979,492 for the construction of the two storey 8 class rooms structure. However, the bill of quantities, project designs, tender advertisement, minutes of tender opening, tender evaluation and award were not availed for audit review. No information was also availed to show how much had been paid to the contractor. Further, the cash book, bank reconciliation and certificate of bank balance were not availed as a proof of how much was outstanding on the PMC account as at 30 June, 2019.

Consequently, the propriety of the disbursement of Kshs.6,300,000 for the year ended 30 June, 2019 could not be ascertained.

### **4. Delayed Works at St. Lawrence Ichina Primary School**

The transfers to primary schools figure of Kshs.61,007,611 as disclosed under Note 4 to the financial statements also includes a transfer of Kshs.1,000,000 to St. Lawrence Ichina Primary School towards casting of slab of 1<sup>st</sup> floor of administration block and two (2) classrooms. The project started on 30 August, 2014 at a contract price of Kshs.8,561,652. However, the engineers' site inspection reports and project status reports were not availed for audit review. Further, the project account was still holding Kshs.3,450,760 for the project as per the PMC account balance disclosure at Annex 4 to the financial statements.

Audit verification of the project in February, 2020 showed that the project was still on going and at slab level although it was not known when the same shall be completed and put to use.

Consequently, the public may not get value for expenditure of Kshs.3,450,760 held in the bank.

### **5. Idle Project Funds for Ikonyero Primary School**

The transfers to primary schools figure of Kshs.61,007,611 as disclosed in Note 4 to the financial statements includes Kshs.2,712,630 transferred to Ikonyero Primary School for the construction of 3 classrooms which was equivalent to full project allocation for the year 2018/2019. However, as at the time of audit in February, 2020, the project had not commenced and no reason was provided. In addition, the cash book, bank reconciliations and certificate of bank balance were not availed for audit review to ascertain the

availability of the funds. Further, the PMC was not listed among the PMCs balance as at 30 June, 2019 as per Annex 4 to the financial statements.

Consequently, the community of Ikonyelo Primary School may not get value for Kshs.2,712,630 disbursed to the school during the year ended 30 June, 2019.

## **6. Incomplete Works at Ebuchinga Primary School**

The transfers to primary schools figure of Kshs.61,007,611 includes Kshs.9,500,000 transferred to Ebuchinga Primary School for the construction of new eight (8) classroom storey building for casting of 1<sup>st</sup> floor and roofing. Information availed indicated that a local contractor was awarded the works at a contract sum of Kshs.14,051,161 through local advert instead of competitive open tender contrary to the Public Procurement and Assets Disposal Act, 2015.

In addition, the bill of quantities and designs were not availed for audit review. Although, the ground floor had been put to use, there was no completion and handing over certificates. Further, there was no evidence that the construction was supervised by the State Department of Public Works.

Audit verification of the project in February, 2020 showed that the floors had cracks an indication of poor workmanship or poor quality materials.

Consequently, residents of Lurambi Constituency did not obtain value for Kshs.9,500,000 disbursed to the project during the year ended 30 June, 2019.

## **7. Unsupported Works at Eshandukusi Primary School**

The transfers to primary schools figure of Kshs.61,007,611 includes Kshs.5,700,000 disbursed to Eshandukusi Primary School for the construction of new eight (8) classroom storey building for structure and walling of 1<sup>st</sup> floor. Information availed indicated that the contract was awarded to a local firm for a contract price of Kshs.14,181,208.80. However, the bill of quantities, structural designs and tender documents were not availed for audit verification. Further, there was no record of payments and the balance if any as at 30 June, 2019.

Consequently, the Management breached the law and the propriety of Kshs.5,700,000 could not be confirmed.

## **8. Substandard Works at Emurumba Primary**

An amount of Kshs.2,000,000 was disbursed to the school for construction of a three (3) classroom building which was the full budget for the year under review. The contract was awarded to a local firm at a contract sum of Kshs.3,288,645. As at the time of the audit in February, 2020, the building had been put to use. However, the floor had many cracks an indication of poor workmanship. Further, the building had no ceiling and a back pavement although they had been provided for in the bill of quantities.

Consequently, the public did not get value for Kshs.2,000,000 disbursed to the school.

## **9. Incomplete Work at Ikonyero Secondary School**

The transfers to secondary schools figure of Kshs.7,060,000 as disclosed in Note 4 to the financial statements includes an amount of Kshs.800,000 disbursed to Ikonyero Secondary School for completion of a four (4) classroom storey building for plastering and painting of 2<sup>nd</sup> floor. However, as at the time of audit in February, 2020, the project was still incomplete. No information was availed to show when the same shall be completed and put to use.

Consequently, the public may not get value for the Kshs.800,000 disbursed to the school during the year ended 30 June, 2019.

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 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 such 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services and 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.

Those charged with governance are responsible for overseeing the 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 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 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 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**

**23 December, 2021**