

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MACHAKOS TOWN 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 - Machakos Town Constituency set out on pages 1 to 20, 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 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 - Machakos Town 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. Unsupported Bank Balances**

The statement of assets and liabilities reflects bank balances of Kshs.6,920,782;(2018-Kshs.2,174,113) and as disclosed under Note 8 to the financial statements. However, the bank reconciliation statement in support of the balance reflected payments in the cash book but not in the bank statement (unpresented cheques) and payments in the bank but not in cash book of Kshs.18,877,456 and Kshs.111,480 respectively that were unsupported by way of detailed analysis.

In the circumstances, the accuracy and fair statement of the reported bank balances of Kshs.6,920,782 as at 30 June, 2019 could not be established.

#### **2. Unsupported Office Rent**

The statement of receipts and payments reflects expenditure on use of goods and services of Kshs.5,953,712;(2018-Kshs.5,971,563) and as disclosed under Note 3 to the financial statements. However, office rent amount of Kshs.324,232 is unsupported by way of duly registered lease agreement.

Consequently, the accuracy and validity of the reported office rent expense of Kshs.324,232 for the year ended 30 June, 2019 could not be confirmed.

### **3. Irregular Bursary Disbursements**

The statement of receipts and payments reflects other grants and transfers of Kshs.58,939,000; (2018-Kshs.20,966,700) and as disclosed under Note 5 to the financial statements. Included in the bursary amount is Kshs.2,286,000 paid to Mumbuni Engineering and Driving School classified under tertiary institutions and secondary schools' disbursements of Kshs.1,200,000 and Kshs.1,086,000 respectively. However, there is no evidence of the driving school having been registered with the National Transport and Safety Authority (NTSA). It was not clear how the beneficiaries were identified and their respective admission numbers. The classification of part payment to the driving school as secondary schools' bursary is misleading.

Consequently, the accuracy and validity of the bursary expenditure amount of Kshs.2,286,000 for the year ended 30 June, 2019 could not be confirmed.

### **4. Misstatements in Comparative Balances**

Comparison between the comparative balances for 2017/18 included and the audited financial statement for the previous year revealed some variances as follows:

#### **4.1 Statement of Receipts and Payments**

The statement of receipts and payments reflects a figure of Kshs.1,434,944 as the surplus for 2017/2018 which differed from a balance of Kshs.1,494,772 reported in the year ended 30 June 2018. The resultant variance of kshs.59,828 arose from re-statement of amount for use of goods and services.

#### **4.2 Statement of Cash Flows**

The statement of cash flows reflects Kshs.2,174,113 as cash and cash equivalents balance as at 30 June 2018 which agrees with the audited financial statements for the previous year. However, comparative amounts for; cash flows from operating activities, balance at the beginning of the year and net increase in cash and cash equivalents were at variance with the audited financial statements for 2017/18 financial year.

#### **4.3 Annex 4 – Summary of Fixed Asset Register**

The financial statements reflect under Annex 4 a figure of Kshs.17,404,762 as the comparative balance for summary of fixed asset register which differs from the Kshs.11,304,192 in the audited financial statements for the previous year.

In the circumstances, it has not been able to confirm the accuracy and fair statement of 2017/18 comparative balances.

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

#### **Budget Control and Performance**

The summary statement of appropriation: recurrent and development combined reflects receipts budget and actual on comparable basis of Kshs.171,599,472 and Kshs.110,958,596 respectively resulting in underfunding of Kshs.60,640,876 or 40% of the budget.

The underfunding affected the planned activities and projects which may have impacted negatively on service delivery for the constituents of Machakos Town.

### **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. Irregular Procurement Method - Construction of NGCDF Office Block**

The statement for receipts and payments reflects acquisition of assets amount of Kshs.7,038,701;(2018-Kshs.6,100,570) and as disclosed under Note 6 to the financial statements. The amount is in relation to partial payment for the contract for construction of the Fund's office block at a contract price of Kshs.16,755,160. However, review of the documents provided in support of the procurement process revealed that the restricted tendering method was applied instead of open tender as stipulated under Section 91 of the Public Procurement and Assets Disposal Act, 2015. No satisfactory explanation has been rendered for the choice of the method.

To that extent, the Fund is in breach of the law.

##### **2. Projects Implementation**

The statement for receipts and payments reflects transfer to other government entities of Kshs.27,100,000;(2018-Kshs.31,440,787) and as disclosed under Note 4 to the financial statements. The statement also reflects other grants and transfers of Kshs.58,939,000; (2018-Kshs.20,966,700) and as disclosed under Note 5 to the financial statements. Included in these amounts are payments towards project implementation totaling Kshs.34,280,000.

Examination of the project status report as at 30 June, 2019, project files and physical verification for the sampled projects during the month of February 2020 revealed the following unsatisfactory issues: -

## **2.1 Delayed Implementation of Projects**

The funding allocation to projects amounted to Kshs.58,823,897 for implementation of forty-three (43) projects in the year. However, only ten (10) projects with funding allocation of Kshs.7,900,000 were completed during the year while six (6) projects with a combined allocation of Kshs.16,700,000 were on-going. The remainder twenty-seven (27) projects with funding allocation of Kshs.34,223,897 or 58% of the project funding had not commenced. No satisfactory explanation has been rendered for the delays nor measures being put in place to remedy the continued delays.

In view of the foregoing, it has not been possible to confirm if and when value for money will be realized from the projects not started with funding allocation of Kshs.34,223,897.

## **2.2 Stalled Projects**

### **2.2.1 Kamuthanga Dispensary**

The project was approved in the financial year 2012/13 and entailed purchase of one-acre parcel of land at Kshs.1,000,000 and construction of a maternity wing estimated to cost Kshs.500,000 then. However, the project is incomplete and has stalled at about 80% completion level. Although management has explained the reason for stalling as the transfer of health function to County Governments from the National Government. However, documentary evidence in support for the land purchase and project hand over to the County Government were not made available for audit review.

### **2.2.2 Kyanguli Secondary School**

The project was approved in the 2016/17 financial year with scope of library construction. However, the library building construction was at about 33% completion with a total of Kshs.1,000,000 having been disbursed despite significant time having lapsed indicative of the project having stalled. No satisfactory explanation has been rendered for delays to complete the project.

### **2.2.3 Mua Farm Secondary School**

The project was approved in 2013/14 financial year for the construction of administration block at an estimated cost of Kshs.3,500,000. As at 30 June, 2019, an amount of Kshs.2,000,000 had been paid out; 2013/14 - Kshs.500,000 and 2015/16 Kshs.1,500,000. However, physical verification carried out in February 2020 revealed that the project had stalled. No satisfactory explanation has been rendered for failure to complete the project.

In the circumstances, it has not been possible to confirm whether public resources were effectively used.

### **3. Unsupported Project Management Committee Bank Balances**

Note 12 to the financial statements and detailed analysis at Annex 2, discloses PMC bank balances totalling Kshs.2,070,249 as at 30 June, 2019. However, the bank balances were not supported by way of certificates of bank balance confirmation and bank statements. Further, Annex 2 reflects PMC bank balance, Ikokani secondary school account, of Kshs.813,605;(2018-Kshs.1,018,325) with Kshs.1,400,000 having been transferred to the project account towards construction of two (2) classrooms on 07 May, 2018. There was however no evidence to show how the funds had been utilized.

In view of the foregoing, the completeness and accuracy of the PMC bank balances as at 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, 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 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 liquidate 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 noncompliance. 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**

**29 December, 2021**