

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MANYATTA 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 - Manyatta Constituency set out on pages 12 to 44, 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 - Manyatta 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**

#### **1.0 Presentation of the Financial Statements**

The financial statements presented for audit for the year ending 30 June, 2019, had the following inadequacies;

- i. The Fund's financial statements do not reflect separate summary statements of appropriation for recurrent and development as stipulated by the Public Sector Accounting Standards Board (PSASB).
- ii. The statement of receipts and payments, statement of cash flows and the combined summary statement of appropriation do not indicate that they are for the year ended 30 June, 2019, and statement of assets and liabilities did not indicate that it is as at 30 June, 2019 as stipulated by International Public Sector Accounting Standards (IPSAS) 1.
- iii. The Fund's financial statements at page 43 and 44 reflects a progress on follow up of auditor recommendations indicating the status of the audit issues as resolved. However, no evidence was provided for audit verification to confirm how the issues were resolved.

- iv. The summary statement of appropriation: recurrent and development combined reflects a balance of Kshs.88,000 in respect to income from other receipts shown in brackets which is misleading since any balance in brackets is interpreted to be a negative balance. In addition, the final receipt budget in the summary statement of appropriation: recurrent and development combined has no totals contrary to the PSASB stipulated format.

In the circumstances, the presentation of the financial statements for the year ended 30 June, 2019 is not in accordance with the PSASB and IPSAS prescribed formats.

## **2.0 Inaccuracy of the Financial Statements**

### **2.1 Unutilized Funds**

The summary statement of appropriation: recurrent and development combined for the year under review reflects Kshs.62,879,429 in respect to adjustments for the year being the unspent funds in the previous year. However, the audited 2017/2018 financial statements reflect unspent funds totalling Kshs.61,312,510 resulting to an unreconciled and an unexplained variance of Kshs.1,566,919.

In the circumstances, the accuracy of the Kshs.62,879,429 adjustments for the year ended 30 June, 2019 could not be confirmed.

### **2.2 Cash and Cash Equivalents**

Note 10A to the financial statements reflects Kshs.5,343,559 in respect to cash and cash equivalents balance as at 30 June, 2019 held in the bank account. However, the respective bank reconciliation statement reflects unrepresented cheques totalling Kshs.3,619,063 which further includes fourteen (14) stale cheques totalling Kshs.183,500 and which had not been replaced or reversed in the cash book as at 30 June, 2019 thereby understating the cash and cash equivalents balance of Kshs.5,343,559 by the same amount.

In addition, the respective bank reconciliation statement reflects Kshs.10,850 in respect to payments in the bank statements not entered in the cash books and therefore overstating the cash and cash equivalents by the same amount.

In view of the above, the completeness and accuracy of the cash and cash equivalents balance of Kshs.5,343,559 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 the National Government Constituencies Development Fund - Manyatta 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**

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

#### **1.1 Revenue Analysis**

The Fund's summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2019 reflects an approved receipt budget of Kshs.171,920,305 and actual receipts of Kshs.116,967,429 resulting to a net budget shortfall of Kshs.54,952,876 comprising of a budget short fall of Kshs.55,040,876 from the National Government Constituencies Development Fund (NG-CDF) Board and an excess budget of Kshs.88,000 from other receipts.

Overall, the Fund failed to actualize its budget by Kshs.54,952,876 or 32% an indication that some of the programmes and activities that had been planned were not implemented.

There is need therefore for the Constituency Development Fund Management to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the constituents of Manyatta Constituency.

#### **1.2 Expenditure Analysis**

The Fund's summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2019 reflects an approved expenditure budget of Kshs.171,920,305 and actual payments of Kshs.111,625,169 resulting to an under expenditure of Kshs.60,295,136.

Overall, the Fund under spent its budget by Kshs.60,295,136 or 35% of the total budget allocation. The funds could have been allocated to other deserving areas that would have improved delivery of goods and services to the residents of Manyatta Constituency.

In addition, included in the Kshs.60,295,136 under expenditure for the year under review is Kshs.5,343,559 in respect to cash at bank, being funds released by the Board but not spent by the Fund. Failure to spend funds already released by the Board denied the residents of Manyatta Constituency equivalent services.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter 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**

### **1.0 Project Implementation Status**

The Fund's project implementation status (PIS) report availed for audit reflects Kshs.99,186,696 and Kshs.49,508,711 in respect to amount budgeted and amount disbursed for development projects respectively. However, the statement of appropriation: recurrent and development combined reflects Kshs.150,981,564 development budget and Kshs.102,054,254 development expenditure resulting to unexplained and unreconciled variance of Kshs.51,794,868 and Kshs.52,545,543 respectively.

Further, the project implementation status report for the year ended 30 June, 2019 availed for audit review indicated that out of Kshs.99,186,696 allocated to forty-four (44) development projects during the year, nine (9) projects worth Kshs.40,508,712 were completed, sixteen (16) projects worth Kshs.29,960,000 were ongoing while nineteen (19) projects budgeted for Kshs.28,717,985 had not been started.

Consequently, Manyatta constituents did not get expected services from ongoing and not started projects worth Kshs.58,677,984 for the year ended 30 June, 2019.

### **2.0 Unsatisfactorily Implemented Projects**

#### **2.1 Stalled Multipurpose Hall - St Mary's Day Secondary School**

Note 6 to the financial statements reflects Kshs.34,298,275 in respect to transfers to other government entities which includes Kshs.29,616,275 in respect to transfers to secondary schools which further includes Kshs.900,000 disbursed to St Mary's Day Secondary for walling and plastering a multipurpose hall. Documents availed for audit review revealed that the project started in 2013/014 financial year and Kshs.2,700,000 had been disbursed by 30 June, 2018 raising the total amount disbursed to the project as at 30 June, 2019 to Kshs.3,600,000.

However, audit verifications conducted in January, 2020 which is approximately six (6) years since the project started revealed that the multi-purpose hall has not been roofed and the construction works had stalled at trusses and the contractor was not on-site. This is contrary to Section 11(1)(j) of the National Government Constituencies Development Fund Regulations, 2016 which require that projects be allocated adequate funds and should be completed within three years.

In the circumstances, the value for money for the Kshs.3,600,000 expenditure on the multi-purpose hall during the year ended 30 June, 2019 could not be confirmed and the Fund is in breach of the law.

#### **2.2 Unutilized Funds - Ngerwe Primary School**

Note 6 to the financial statements reflects Kshs.34,298,275 in respect to transfers to other government entities which include Kshs.3,900,000 in respect to transfers to primary

schools. Included in the Kshs.3,900,000 transfers to primary schools was Kshs.1,300,000 disbursed to Ngerwe Primary School in August, 2018 for construction of two (2) classrooms.

However, in September, 2018, the National Government Constituencies Development Fund Committee (NG CDFC) requested the Board for change of activity from construction of two (2) classrooms to purchase of 1-acre piece of land. However, the Board vide letter ref: NG-CDF BOARD/MANYATTA/VOL.2/8 deferred the request until a Government land valuation report is submitted.

As at the time of this audit in January, 2020, the NG CDFC had not submitted the land valuation report and the Kshs.1,300,000 remained unutilized.

In the circumstances, value for money for the Kshs.1,300,000 disbursement during the year ended 30 June, 2019 has not been realized.

### **2.3 Security Projects**

Note 7 to the financial statements for the year under review reflects Kshs.67,696,479 in respect to other grants and other payments which includes Kshs.9,450,000 in respect to security projects. Included in Kshs.9,450,000 security projects expenditure is Kshs.1,100,000 for purchase of land for construction of Mbuvari Administration Police line and Kshs.350,000 to purchase land for Ngerwe Assistant Chief's office all totalling to Kshs.1,450,000. The funds were disbursed to the Project Management Committees in July 2018.

However, a physical verification in January, 2020 which was twenty (20) months since the funds were disbursed, revealed that the projects have not been implemented.

In the circumstances, value for money for the Kshs.1,450,000 disbursements during the year ended 30 June, 2019 has not been realized.

### **3.0 Bursary to Secondary Schools and Tertiary Institutions**

Note 7 to the financial statements reflects Kshs.67,696,479 in respect to other grants and other payments which includes Kshs.39,655,700 and Kshs.12,324,200 in respect to bursary to secondary schools and tertiary institutions respectively all totalling to Kshs.51,979,900.

However, out of Kshs.51,979,900 only Kshs.21,450,785 (41%) was acknowledged as having been received by the respective schools while the balance of Kshs.30,529,115 (59%) was not supported by the respective acknowledgement records.

Consequently, it has not been possible to ascertain whether the bursaries amounting to Kshs.30,529,115 benefitted the intended beneficiaries and whether it was expended as appropriated 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 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 maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 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 Fund's 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 National Government Constituencies Development Fund - Manyatta Constituency's 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.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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 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 review 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 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 Fund's 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 National Government Constituencies Development Fund - Manyatta Constituency 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**

**23 December, 2021**