

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MASINGA 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 – Masinga Constituency set out on pages 14 to 43, which comprise of the statement of assets 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 – Masinga 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 Bank Balances**

As disclosed in Note 10A to the financial statements, the statement of assets reflects bank balances totalling to Kshs.6,362,422. The bank reconciliation statements presented were for seven (7) months (December 2018 to June, 2019) leaving out five (5) months unreconciled. In addition, the bank reconciliation statements revealed that eighty-eight (88) unrepresented cheques totalling to Kshs.1,507,000 which were stale. However, the cheques had not been written back into the cashbook.

Consequently, the accuracy, completeness and validity of the reported bank balances totalling to Kshs.6,362,422 reflected in the statement of assets as at 30 June, 2019 could not be confirmed.

#### **2. Inaccuracy in Compensation of Employees**

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees totaling to Kshs.1,928,161. The balance included basic wages for contractual employees amounting to

Kshs.1,713,541. However, the supporting payrolls and ledger amounted to Kshs.1,847,500 resulting to an unexplained variance amounting to Kshs.133,959.

In the circumstances, the accuracy, completeness and validity of compensation of employees totalling to Kshs.1,928,161 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

### **3. Misclassification of Expenditure**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.10,401,900. Included in the training expenses amount is misclassified committee expenses totalling to Kshs.520,000. The error was not corrected.

In the circumstances, the accuracy, completeness and validity of training and committee allowance expenses amounting to Kshs.803,100 and Kshs.1,700,000 respectively for the year ended 30 June, 2019 could not be confirmed.

### **4. Unsupported Bursaries**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.66,457,787. However, bursaries amounting to Kshs.4,079,991 were not supported by detailed beneficiaries' listing.

Consequently, the accuracy, completeness and validity of bursaries amounting to Kshs.4,079,991 for the year ended 30 June, 2019 could not be confirmed.

### **5. Land without Title Deed**

Annex 4 - summary of fixed asset register to the financial statements reflects historical cost of fixed assets totalling to Kshs.25,117,947 as at 30 June, 2019. Included in the balance is land parcel with a cost of Kshs.200,000 whose title deed was not provided.

In the circumstances, the ownership of the land parcel with a cost of Kshs.200,000 could not be established.

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

### **Unresolved Prior Year Matters**

In the audit report of the previous year, two issues were raised. However, the Management has not included progress on audit recommendations, resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **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. Lack of Public Participation in Projects Implementation**

The Management did not provide evidence of public participation for the projects implemented during the financial year. This is contrary to Regulation 27(1) of National Government Constituencies Development Fund Regulations, 2016 requires open public meeting forums to be held in every ward in the constituency to deliberate on development matters in the ward and in the constituency within the first year of the commencement of a new parliament and at least once every two (2) years thereafter. In the circumstances, the Management is in breach of the law.

#### **2. Delays in Project Implementation**

##### **2.1. Construction of Laboratory in Kiseuni Secondary School**

The Management budgeted for construction of laboratory at Kiseuni Secondary School during the financial year 2014/2015 and a sum of Kshs.1,000,00 disbursed to the project. Physical verification of the project in February, 2020 revealed the that it had stalled at 50% completion level. Plastering of the floor, verandah and walls were not done while the doors and windows had not been fixed. The project had not been

prioritized hence the delay in completing the project within the stipulated time frame of three (3) years. This is contrary to Section 22 (i) and (j) of the National Government Constituencies Development Fund Act, 2015, requires the Project Management Committee (PMC) to rank project proposals in order of priority while ensuring on-going projects take precedence and also ensure that all projects receive adequate funding and are completed within three (3) years.

## 2.2. Construction of Fund Offices

The contract for construction of Fund offices was signed on 14 December, 2018 at contract sum of Kshs.17,560,138. The contract period was sixteen (16) weeks up to 2 May, 2019. However, physical verification in February, 2020 revealed the project was incomplete with project completion status estimated at 90%, nine (9) months after expiry of the contract period.

## 2.3. Projects Not Started

The project implementation status as of 30 June, 2019 indicated that three (3) projects with a budget allocation totalling to Kshs.1,062,262 had not commenced in the year as detailed below;

<b>Beneficiary</b>	<b>Project Description</b>	<b>Amount (Kshs.)</b>
Luuma Secondary School	Construction of Lab	440,000
Ekalakala Secondary School	Renovation of Dormitory	500,000
Katulye Chiefs Office	Renovation Toilets	122,262
		<b>1,062,262</b>

No explanations were provided for the delays in implementation of the projects.

Consequently, I am unable to confirm whether the public will obtain value for money on the delayed projects.

## 3. Unsatisfactory Implementation of Projects

### 3.1. Projects without Signage and Branding

Project verification in February, 2020 revealed that three (3) on-going projects did not have signage providing information on the scope, funding and contractors. The projects were: - Masinga Constituency Boys Secondary School-Construction of School Library; Kivaa Secondary School-Construction of School Dining hall and Kyeeteni Secondary School-Completion of Administration Block and staff quarters at Kithyoko police post.

This is contrary to Regulation 15 of the National Government Constituencies Development Fund Regulation, 2016, thus denying the stakeholders information regarding projects being implemented by the Fund.

### **3.2. Construction of Kaewa Assistant Chief's Office**

The construction of Kaewa assistant Chief's Office was completed on 16 January, 2019 and full contract amount inclusive of the retention monies totalling to Kshs.1,500,000 paid out. However, physical verification of the project in February, 2020 revealed that the floor was not tiled as provided for in the bill of quantities and there were major cracks on the walls and the floor.

### **3.3. Kithyoko Police Post**

Expenditure returns for Kithyoko Police Post were not filed. This is contrary to the provisions of section 15(d & f) of National Government -CDF Act, 2015 which requires the project management committee to prepare returns and file them with constituency committee on a timely basis and also undertake project closure, labelling and hand over upon completion.

In the circumstances, I am unable to confirm the validity and value for money for the unsatisfactory implemented 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**

**29 December, 2021**