

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATUGA 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 - Matuga Constituency set out on pages 9 to 42, which comprise of 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 - Matuga 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 Cash book not Updated**

The statement of assets and liabilities as at 30 June, 2019 reflects a bank balance of Kshs.60,543,219. The supporting bank reconciliation statement as at 30 June, 2019 reflects payments in cash book not in bank statement of Kshs.1,063,466, out of which thirteen (13) cheques amounting to Kshs.153,447 were stale and not reversed in the cash book as at 30 June, 2019. Further, included in the outstanding cheques of Kshs.1,063,466 were twenty-six (26) stale cheques totaling Kshs.411,947 which had not been reversed as at the time of audit in February, 2020. No proper explanation was provided for retaining the stale cheques in cash book.

In addition, the bank reconciliation statement reflects bank charges amounting to Kshs.792.94 as payments in bank statement not yet recorded in cash book. No explanation was given as to why the bank charges were not recorded in cash book and expensed.

Consequently, the accuracy and completeness of the bank balance of Kshs.60,543,219 as at 30 June, 2019, could not be confirmed.

## **2.0 Doubtful Recoverability of Imprest**

As reported in 2017/2018, the statement of assets and liabilities as at 30 June, 2019 reflects outstanding imprest of Kshs.150,000. Records provided for audit indicate that the imprest was advanced to a government employee in March 2018 and who has since been transferred. Information available indicates that the Fund Manager has written to the Principal Secretary, Ministry of Interior and Coordination of National Government, for recovery of the money. However, the amount had not been surrendered as at January, 2020. It was not clear how an officer who is not an employee of the Board was directly advanced imprest.

Consequently, the recoverability of outstanding imprest of Kshs.150,000 as at 30 June, 2019 is doubtful.

## **3.0 Excess Disbursement to Matuga Girls Secondary School**

The statement of receipts and payments reflects an amount of Kshs.67,581,000 in respect of transfers to other government units, out of which Kshs.25,550,000 was transferred to secondary schools as disclosed in Note 6 to the financial statements. Out of this amount, Kshs.2,545,653 was transferred to Matuga Girls Secondary School for the completion of a modern administration block. Information available indicates that a total of Kshs.20,626,634 had been transferred to the project since inception compared to the revised contract price of Kshs.18,626,634, resulting in excess disbursements of Kshs.2,000,000. Although the excess disbursement was approved by the National Constituencies Development Fund Board, justification for the same and details of how it was utilized were not provided for audit verification.

Consequently, value for money for this project and propriety of Kshs.2,545,653 transferred to Matuga Girls Secondary School for the year 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 - Matuga 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**

During the year under review, National Government Constituencies Development Fund - Matuga Constituency had a revenue budget of Kshs.167,217,127 against actual receipts of Kshs.163,835,359 or 98%, resulting to an under disbursement of budget of Kshs.3,381,768 or 2% from the Constituency Development Fund Board. Further, included in the disbursement of Kshs.163,835,359 is Kshs.55,040,875 or 34% of which Authority to Incur Expenditure (AIE) detailing how the funds were to be utilized was received after the year end on 2 July, 2019.

In addition, the National Government Constituencies Development Fund - Matuga Constituency had a final expenditure budget of Kshs.167,217,127 and actual expenditure of Kshs.106,523,908 or 64%, resulting to net under expenditure of Kshs.60,693,219 or 36% of the budget.

Delays by the Board to disburse funds as per the budget and late release of the AIE may have adversely affected delivery of goods and services to the residents of Matuga Constituency, contrary to values and principles of public service as provided for under Article 232 (1 - c) of the Constitution.

## **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**

#### **1.0 Projects Implementation Status**

The projects implementation status report as at 30 June, 2019 provided for audit review indicated that forty-three (43) development projects with a total allocation of Kshs.61,938,676 were approved by the National Government Constituency Development Fund Board for implementation in the financial year 2018/2019.

Audit review of the Project status report and as detailed in Appendix 1 indicated that:

- i. Six (6) projects with an allocation of Kshs.4,713,847 were initiated and completed during the year under review.
- ii. Twenty-two (22) Projects with a total allocation of Kshs.46,552,829 were started and ongoing.
- iii. Fifteen (15) Projects with an allocation of Kshs.10,672,000 were not started.

Slow implementation of projects due late disbursements greatly affects the delivery of services to the residents of Matuga Constituency.

## 2.0 Projects Inspection

An audit inspection was undertaken in the month of December, 2019 on fourteen (14) development projects valued at Kshs.32,900,000, out of which four (4) projects with total cost of Kshs.11,200,000 revealed the following state of affairs:

No.	Project Name	Activity	Project Cost (Kshs.)	Observations
1	Matuga Girls Secondary School	Completion of a modern administration Block. (Flooring and Painting works)	2,000,000	Contractor not on site. Flooring only done on 2 floors instead of 3 floors Only 1 <sup>st</sup> coat paint applied
2	Mwangunga Girls' Secondary School	Construction of 1 No. Administration block to completion	3,700,000	Door frames amounting to Kshs.239,500 were not fixed. Metallic doors fixed instead of hardwood doors as provided for in the Bills of Quantities
3	Lunguma Primary School	Construction of 4No. New Classrooms to completion	4,500,000	Ongoing works at slab level
4	Mkomba Secondary School	Renovation of 2No. Classrooms (Roofing and painting)	1,000,000	Construction of ring beam completed but plastering had not been completed, Painting works of the half plastered structure was not done.
	<b>Total</b>		<b>11,200,000</b>	

The above state of affairs is an indication of poor project planning, implementation and monitoring which negatively affects quality of work done.

## 3.0 Irregular Procurement of Construction Contracts

The statement of receipts and payments for the year ended 30 June, 2019 reflect Kshs.67,581,000 in respect of transfers to other government units as disclosed in Note 6 to the financial statements, for construction contracts. Audit examination of the procurement processes revealed that three (3) contracts with a total cost of Kshs.14,991,880 were awarded without evidence of advertisement in a newspaper with countrywide circulation despite being above the threshold Kshs.4,000,000 required for use of open tender, contrary to Section 91 (2) of the Public Procurement and Asset Disposal Act, 2015 as detailed below:-

No.	Project Name	Project Activity	Contract Sum (Kshs.)
1.	Mwangunga Primary School	Construction of 1 classroom to completion	6,000,000

2.	Burani Girls Secondary School	Construction of laboratory and renovation of 3 classrooms	4,491,880
3.	Lunguma Primary School	Construction of 4 classrooms	4,500,000
	<b>Total</b>		<b>14,991,880</b>

Further, there was no evidence that the bidders submitted any form of tender security as required by Section 61(1). As a result, public funds are exposed to great risk of loss.

In addition, there was no evidence that the tender documents included Bills of Quantities as required by part 4.4.1 of Procurement Manual for Works, 2009. It is therefore not clear how the project costs were arrived at and how value of work done was determined in the absence of Bills of Quantities.

As a result, the Management was in breach of the Laws.

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 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 National Government Constituency Development Fund - Matuga 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 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 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 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 Fundability 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 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**

## **Appendix 1: Summary of the Implementation Status Report:**

No.	Project	Project Activity	Allocation (Kshs.)	Status
1.	Mwanamkuu Primary School	Construction of 3 No. new classrooms to completion.	3,000,000	On going
2.	Mwanamkuu Primary School	Procuring and delivery of 60 pieces of desks.	240,000	Not started
3.	Kidongo Primary School	Renovation of 4 No. classrooms (roofing, plastering and painting).	2,000,000	On going
4.	Lwara Primary school.	Construction of 3 No. new classrooms to completion.	3,000,000	On going
5.	Lwara Primary School	Procuring and delivery of 50 pieces of desks.	200,000	Not started
6.	Kizimbani Primary School	Construction of 3 No. new classrooms to completion.	3,000,000	On going
7.	Kizimbani Primary School	Procuring and delivery of 40 pieces of desks.	160,000	Not started
8.	Mwele Primary School	Construction of 3 No. new classrooms to completion.	3,000,000	On going
9.	Mwele Primary School	Procuring and delivery of 50 pieces of desks.	200,000	Not started
10.	Lunguma Primary school	Construction of 4 No. new Classrooms to completion.	4,500,000	On going
11.	Lunguma Primary school	Procuring and delivery of 70 pieces of desks.	280,000	Not started
12.	Mwanzwani Primary School	Construction of 3 No. New Classrooms to completion.	3,000,000	On going
13.	Mwanzwani Primary School	Procuring and delivery of 58 pieces of desks.	232,000	Not started
14.	Nzora Primary School	Construction of 2 No. New classrooms to completion.	2,000,000	On going
15.	Nzora Primary School	Procuring and delivery of 50 pieces of desks	200,000	Not started
16.	Nyando Primary School	Construction of 2 No. new classrooms to completion.	2,000,000	On going
17.	Nyando Primary School	Procuring and delivery of 50 pieces of desks.	200,000	Not started
18.	Mbweka Primary School	Renovation of 2 No. classrooms (roofing, plastering and painting).	1,000,000	Complete
19.	Deiry Primary School	Procuring and delivery of 40 pieces of desk.	160,000	Not started.
20.	Lukore Secondary School	Renovation of 4 No. classrooms (roofing and painting).	2,000,000	Not started
21.	Mkomba Secondary School	Renovation of 2 No. classrooms (roofing and painting).	1,000,000	Complete
22.	Mkomba Secondary School	Construction of 2 No. of two door VIP pit latrines to completion.	1,000,000	Complete

<b>No.</b>	<b>Project</b>	<b>Project Activity</b>	<b>Allocation (Kshs.)</b>	<b>Status</b>
23.	Kirewe Secondary School	Construction of a new single laboratory to completion.	3,500,000	On going
24.	Mbegani Secondary School	Construction of 1 No. new classroom to completion.	1,200,000	On going
25.	Burani Secondary School	Construction of a new single laboratory to completion.	3,000,000	On going
26.	Burani Secondary School	Renovation of 3 No. classrooms (roofing, plastering, painting and flooring).	1,000,000	On going
27.	Balozi A.M Jorori Secondary School	Construction of 1 No. new classroom to completion.	1,000,000	Complete
28.	Ziwani Secondary School	Renovation of one classroom (painting).	200,000	On going
29.	Ziwani Secondary School	Construction 2door pit latrine to completion.	500,000	On going
30.	Ziwani Secondary School	Purchase Office Furniture	300,000	Not started
31.	Chitsanze Secondary School	Construction of 1 No. new classroom to completion.	1,000,000	On going
32.	Kiteje Secondary School	Construction of a new single laboratory to completion.	3,000,000	On going
33.	Mwanambeyu Secondary School	Construction of a new dormitory to completion.	3,000,000	Not started
34.	Tiwi Girls Secondary School	Completion of a multi-purpose Hall. I.e. co-funding with the school. (roofing).	1,000,000	Not started
35.	Matuga Girls Secondary School	Completion of a modern administration Block. (flooring and painting work)	2,000,000	On going
36.	Ngombeni Police Post	Construction of a new police post to completion.	2,000,000	On going
37.	Tsimba chiefs Office	Purchase of Land for the Tsimba chief's office of quarter an acre.	300,640	Complete
38.	Matuga Constituency ICT Hub	Construction of a New ICT Hub to completion.	2,000,000	Not started
39.	Matuga Constituency ICT Hub	Purchase of 10 tables and 30 chairs for the ICT hub.	500,000	Not started
40.	Environmental Activities.	Purchase and installation of gutters, tank stands and water tank of 10,000 litres to Dima Primary school, Kirewe secondary school, Boyani primary school and Magwasheni primary.	1,652,829	On going
41.	Environmental Activities.	Rehabilitation of Nyando Natural water springs.	413,207	Complete

<b>No.</b>	<b>Project</b>	<b>Project Activity</b>	<b>Allocation (Kshs.)</b>	<b>Status</b>
42.	Kipambani Primary School	Construction of 1No. New classrooms to completion.	1,000,000	On going
43.	Kilindini Primary School.	Construction of 1No. New classrooms to completion.	1,000,000	On going
<b>Total</b>			<b>61,938,676</b>	