

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MOIBEN 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 - Moiben Constituency set out on pages 10 to 39, 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 effects 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 - Moiben 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Unreconciled Compensation of Employees Balance Variance**

The statement of receipts and payments reflects compensation of employees expenditure of Kshs.2,539,612. However, the supporting schedule reflected a balance of Kshs.2,507,778 resulting into a variance of Kshs.31,834 which was not reconciled or explained.

Consequently, the accuracy of the reported compensation of employees expenditure of Kshs.2,539,612 could not be confirmed.

#### **2. Unsupported Project Management Committee Balances**

Note 15.4 and Annex 4 to the financial statements reflect Project Management Committee (PMC) bank balances totaling Kshs.99,893,991 as at 30 June, 2019. However, the cash books, bank balance confirmation certificates, bank statements and bank reconciliation statements in support of the balances were not provided.

Consequently, the existence, accuracy and completeness of the PMC bank balances totaling to Kshs.99,893,991 as at 30 June, 2019, could not be confirmed.

### **3. Unreconciled Variance for Unutilized Funds**

The summary statement of appropriation - recurrent and development combined reflects a budget utilization difference of Kshs.76,976,286 which differs with the unutilized fund balance of Kshs.76,920,286 reflected under Note 15.3 to the financial statements and Annex 3 by Kshs.56,000. The variance was not reconciled.

### **4. Prior Year Adjustments**

The statement of assets and liabilities reflects prior year adjustments of Kshs.376,092 which as disclosed at Note 14 to the financial statements, related to reversed cheques. However, Paragraph 47(a) of IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors provides that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period presented in which the error occurred.

In the circumstances, the accuracy of the Kshs.376,092 in respect to prior year adjustments, could not be confirmed.

### **5. Inconsistencies in the Financial Statements and Notes**

The statement of receipts and payments reflects Notes 4 and 5 as the disclosure notes for compensation of employees and use of goods and services instead of Notes 3 and 4 respectively. In addition, the Annex containing the details of the PMC bank balances is wrongly numbered as Annex 4 instead of 5.

The financial statements are therefore, not properly presented.

### **6. Unsupported Transfers to Other Government Units**

The statement of receipts and payments reflects transfers of Kshs.64,700,000 to other government units being the funds disbursed to various PMCs of primary schools, secondary schools and tertiary institutions as disclosed at Note 6 to the financial statements. However, actual expenditure returns and acknowledgement letters from the institutions that received the funds were not availed for audit verification. This is contrary to Regulation 15(1)(d) of the National Government Constituencies Development Fund Regulations, 2016 which requires PMCs to prepare returns and file them with a Constituency Committee.

Under the circumstances, it was not possible to confirm whether the funds totalling Kshs.64,700,000 were actually received by the respective PMCs and utilized for the budgeted projects in the year under review.

### **7. Unsupported Bursary Disbursements**

Included in the other grants and transfers balance of Kshs.34,835,000 reflected in the statement of receipts and payments are bursary disbursements of Kshs.7,235,000 and Kshs.11,400,000 to secondary schools and tertiary institutions respectively, as disclosed

at Note 7 to the financial statements. However, minutes of the bursary subcommittee indicating how the beneficiaries were identified and evidence that membership of the subcommittee was as required by the Constituencies Development Fund Circular Reference No. Vol. 1/111 of 13 September, 2010, were not provided. In addition, acknowledgements of the bursary payments by the beneficiary schools and the tertiary institutions were also not provided for audit.

Consequently, the accuracy and propriety of the bursary disbursements could not be confirmed.

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

The summary statement of appropriation – recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.193,558,078 and Kshs.138,517,202 respectively resulting to an under-funding of Kshs.55,040,876 or 28% of the budget. Similarly, the Fund spent Kshs.116,581,786 against an approved budget of Kshs.193,558,072 resulting to an under-expenditure of Kshs.76,976,286 or 40% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the people of Moiben Constituency.

#### **2. Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided adequate reasons for the delay in resolving the issues. Further, some of the unresolved prior year issues are not disclosed under the progress on follow up of auditor recommendations section of the financial statements, as required by the Public Sector Accounting Standards Board.

## **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. Delayed Implementation of Projects**

The projects implementation status report as at 30 June, 2019, indicated that a total of sixty-seven (67) projects with a combined budget of Kshs.80,650,000 were funded. However, thirty-nine (39) projects with an estimated cost of Kshs.68,250,000 were not completed while twelve (12) projects with an estimated cost of Kshs.11,100,000 had not started. Failure to complete the funded projects is an indication that programs or activities were not implemented as planned thus not achieving the intended objective of improving delivery of services to the people of Moiben Constituency.

### **2. Stalled Dining Hall Works at Kapsubere Primary School**

The statement of receipts and payments reflects transfers to other government units of Kshs.64,700,000 which as disclosed at Note 6 to the financial statements, includes Kshs.29,650,000 transferred to primary schools of which an amount of Kshs.1,500,000 was paid to Kapsubere Primary School for construction of a dining hall to completion. However, the approved work plan, building design and drawings, and the Constituency Committee approval of the Project before the funds were released were not provided. Further, audit inspection of the project in the month of February, 2020 revealed that the building was at the slab level, the foundation lacked appropriate concrete reinforcing bar and the Project had stalled.

Consequently, the propriety of Kshs.1,500,000 spent on the project could not be confirmed.

### **3. Stalled Classroom Construction Works at Torochmoi Primary School**

The transfers to other government units balance of Kshs.64,700,000 reflected in the statement of receipts and payments includes transfers of Kshs.29,650,000 to primary schools of which Kshs.850,000 was paid to Torochmoi Primary School for construction of one (1) classroom to completion. However, the approved work plan, building design and drawings, and approval of the Project by the Constituency Committee before the funds were released, were not provided. Further, audit inspection of the Project in February, 2020 revealed that the Project had stalled at the lintel level.

Consequently, the propriety of Kshs.850,000 spent on the Project could not be confirmed.

**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 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.

In preparing the financial statements, Management is responsible for assessing the National Government Constituencies Development Fund – Moiben Constituency’s ability to continue 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Fund’s 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 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 misstatements, 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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 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 the Fund's ability to continue as a going concern or 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 as a going concern or 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**

**01 October, 2021**