

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MOLO 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 - Molo Constituency set out on pages 7 to 40, 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 - Molo 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. Presentation Anomalies and Misstatements in the Financial Statements**

The annual report and financial statements submitted for audit had the following presentation anomalies:

- 1.1 The reporting currency is not shown on the statement of cashflows, summary statement of appropriation - recurrent and development combined and the annexures containing the analysis of pending accounts payable and project management committee bank balances;
- 1.2 Annex 4 - Summary of Fixed Assets Register at page 35 reflects a historical cost assets balance of Kshs.19,991,938 for financial year 2017/2018 instead of 2018/2019 and a comparative balance of Kshs.5,093,938 for the financial year 2016/2017 instead of 2017/2018;
- 1.3 Pages 19 to 31 do not contain the header showing the name of the constituency and the reporting period as required by the Public Sector Accounting Standards Board;
- 1.4 The page numbers shown under the table of contents do not correspond to the respective page numbering for the various reports, financial statements, significant

accounting policies, Notes to the financial statements and other important disclosures;

- 1.5 The summary statement of appropriation – recurrent and development combined reflects nil expenditure under acquisition of assets while the statement of receipts and payments reflects Kshs.14,898,000.
- 1.6 The statement of assets and liabilities reflects a comparative balance of Kshs.29,553,650 for net financial assets represented by a fund balance (appearing as net liabilities) of Kshs.29,569,329 resulting into a difference of Kshs.15,679 which has not been explained or reconciled.
- 1.7 The statement of assets and liabilities reflects a comparative balance of Kshs.29,553,650 for cash and cash equivalents which differs with the cash and cash equivalents balance of Kshs.29,569,329 at the beginning of the year reflected in the statement of cashflows. The resultant difference of Kshs.15,579 has not been explained or reconciled.
- 1.8 The statement of assets and liabilities reflects a balance of Kshs.19,554,596 for net financial assets represented by an equivalent fund balance which has been described as net liabilities.
- 1.9 The summary statement of appropriation – recurrent and development combined and Note 15.3 to the financial statements reflect unutilized funds of Kshs.74,579,793. However, the details of the unutilized funds have not been provided under Annex 3 as required.

Consequently, the accuracy of the financial statements could not be confirmed. In addition, the annual report and financial statements are not prepared and presented in accordance with the financial reporting guidelines prescribed by the Public Sector Accounting Standards Board.

## 2. Variances Between Financial Statements and Supporting Schedules Balances

The balances for some expenditure items reflected in the financial statements differed with the balances reflected in the supporting schedules as shown in the table below:

Item	Note to the Financial Statements	Financial Statements Balances (Kshs.)	Supporting Schedule Balance (Kshs.)	Variance (Kshs.)
Committee Allowance	5	842,000	2,188,000	(1,346,000)
Office and General Supplies	5	2,985,182	2,117,832	867,350
Training Expenses	5	999,000	1,468,000	(469,000)
Other Committee Expenses	5	1,346,000	1,227,350	118,650
Bursary Secondary	7	18,318,000	18,223,000	95,000

The variances have not been explained or reconciled.

In the circumstances, the accuracy of the financial statements could not be confirmed.

### 3. Unsupported Prior Year Adjustments

The statement of assets and liabilities reflects a comparative prior year adjustments amount of Kshs.15,679 relating to the bank account as disclosed under Note 14 to the financial statements. However, details of what the adjustment relates to have not been disclosed. This is contrary to Paragraph 54 (a) and (b) of International Public Sector Accounting Standard (IPSAS) No.3 - Accounting Policies, Changes in Accounting Estimates and Errors - which requires an entity to disclose the nature of prior period errors and the amount of correction for each financial statements line item affected

In the circumstances, the accuracy of the comparative prior year adjustments amount of Kshs.15,679 could not be confirmed.

### 4. Accuracy of Bank Balances

The statement of assets and liabilities reflects a bank balance of Kshs.19,554,596. However, the June, 2019 bank reconciliation statement reflected unrepresented cheques amounting to Kshs.23,004,789 of which cheques amounting to Kshs.159,061 were stale and had not been written back into the cashbook. The reconciliation statement also reflected payments into the bank but not recorded in the cash book amounting to Kshs.16,425 for which supporting documents were not provided.

In the circumstances, the accuracy of the bank balance of Kshs.19,554,596 as at 30 June, 2019, could not be confirmed.

### 5. Unsupported Expenditure on Use of Goods and Services

The statement of receipts and payments reflects Kshs.6,732,182 being payments on use of goods and services. However, payments totaling to Kshs.5,173,182 were not adequately supported as detailed below:

<b>Item</b>	<b>Observations</b>	<b>Amount (Kshs.)</b>
Office and General Supplies and Services	Name of payee and details of items procured and proof of delivery missing.	2,985,182
Other Committee Allowances	The schedule presented not analyzed by individuals who received the allowances. It was not possible to confirm whether the recipients were genuine committee members.	1,346,000
Committee Allowances		842,000
<b>Total</b>		<b>5,173,182</b>

In the circumstances, the accuracy and regularity of the reported expenditure of Kshs.6,732,182 on use of goods and services 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 - Molo 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. Budget Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.199,379,009 and Kshs.114,784,483 respectively, resulting into an under-funding of Kshs.84,594,526 or 42% of the budget. Further, the summary statement shows that the Fund had a budgeted total expenditure of Kshs.199,379,009 while the actual expenditure was Kshs.124,799,216 thus giving rise to an under expenditure of Kshs.74,579,793 or 37%.

The under-funding and under-expenditure affected the planned activities and projects of the Fund which may have impacted negatively on service delivery to the residents of Molo Constituency.

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

The prior years' audit matters have been disclosed under the progress on follow up of auditor recommendations section of the financial statements. Management has indicated that the matters have been resolved since the relevant documents were presented to the auditors for verification. However, it was not clear whether the matters had been resolved by the relevant committee of Parliament.

## **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. Projects Implementation

#### 1.1. Incomplete Projects and Other Project Implementation Anomalies

Audit inspection on 30 to 31 January, 2020 on five (5) projects with a combined budget of Kshs.23,150,000 revealed the following:

<b>Project Name</b>	<b>Project Details</b>	<b>Observations</b>	<b>Cost (Kshs.)</b>
Tayari Secondary School	Construction of Laboratory	The project was incomplete but the contractor was not on site. Windows, floor, ceiling, fittings and wiring had not been done and yet full project amount had been paid.	2,000,000
KMTC Molo	Construction of Ablution block	Project is a storey building with 8 classrooms. 4 classrooms were incomplete - floor, painting, fittings and wiring was outstanding.	4,050,000
NG-CDF offices	Construction of NGCDF Offices	The Project had started and the ground floor slab complete. The contractor had however, introduced a ramp which was not in the original plan.	14,500,000
Kiambiriria Secondary School	Construction of Laboratory	The construction of the laboratory was incomplete - ceiling board, basins, painting, fittings and wiring were not done though the contractor had been paid in full.	1,800,000
Michatha Primary School	Construction of a Classroom	The Project was complete but the floor had developed cracks and some window glasses were not fixed.	800,000
<b>Total</b>			<b>23,150,000</b>

No satisfactory explanations were rendered for the delays in completion of the Projects especially given that the payments had been made in full.

Consequently, the constituents did not get value for money from the incomplete projects.

#### 1.2. Completion of Administration Block and Library at Chandera Secondary School

The statement of receipts and payments reflects transfers to other government units of Kshs.52,050,000 which as disclosed under Note 6 to the financial statements, included an amount of Kshs.23,950,000 for transfers to secondary schools of which an amount of Kshs.1,500,000 was transferred to Chandera Secondary School for the completion of administration block and library. Available information indicated that the contract was signed during the 2014/2015 financial year at a contract sum of Kshs.13,675,122 with Kshs.6,300,000 having been paid to date. However, audit inspection on 31 January, 2020

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revealed that the roofing, doors, windows, fittings and floor had not been done while the upper floor slab was leaking. The Project was incomplete and works had stalled. Kshs.800,177 had already been paid out in the financial year 2018/2019 since the Project Management Committee bank account had a balance of Kshs.699,823 as at 30 June, 2019.

In the circumstances, the propriety and value for money from the transfer of Kshs.1,500,000 to Chandera Secondary School for the completion of administration block and library could not be confirmed.

### **1.3. Security Projects**

Note 7 to the financial statements reflects security payments of Kshs.9,450,000 relating to construction of Chief's Offices and Administration Police Houses for which contracts for projects with contract sums totaling to Kshs.8,350,000 were awarded. However, tender evaluation reports showing how the firms awarded the contracts were identified and evaluated for capability were not made available for audit.

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

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 ability of the National Government Constituencies Development Fund - Molo Constituency 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 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 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 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 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 ability of the Fund 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**

**15 October, 2021**