

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NDARAGWA 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 - Ndaragwa Constituency set out on pages 1 to 22, 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 - Ndaragwa 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. Inaccuracies in the Financial Statements**

The annual reports and the financial statements prepared and presented for audit had the following errors:

- i. Pages 8 and 17 of the financial statements are unnumbered and their headers reads National Government entity instead of National Government Constituencies Development Fund - Ndaragwa Constituency;
- ii. Note 15.3 on Unutilized Fund does not indicate the financial year it relates while no comparative figures have been provided;
- iii. Annex 3 on breakdown of the Unutilized Fund amounting to Kshs.70,356,546, has not been provided;
- iv. Progress report on the follow up of Auditor's recommendations has not been incorporated in the financial statements;
- v. Headers at pages 4 to 7 are incomplete; and
- vi. Page 22 is unnumbered.

This is contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with Section 194(1)(d) of the Public Finance Management Act, 2012.

Consequently, the annual reports and the financial statements as prepared and presented are not IPSAS compliant.

## **2. Project Management Committee (PMC)**

### **2.1. Unreconciled Comparative Balances**

Note 15.4 PMC account to the financial statements discloses comparative project bank account balances of Kshs.5,126,156 which differs with the audited balances of Kshs.3,301,833 resulting to a variance of Kshs.1,824,324. No explanations or disclosure notes have been rendered for the adjustments.

In the circumstances, the accuracy and fair statement of the PMC comparative bank balance of Kshs.5,126,156 could not be confirmed.

### **2.2. Unsupported Closing Balances**

The Note also discloses closing PMC bank account balances of Kshs.5,923,145 which includes an amount of Kshs.1,348,048 in respect of Ndaragwa Sports account which were unsupported by way of; certificate of bank balance and reconciliation statement.

In the circumstances, the accuracy and fair statement of the reported PMC bank account balances of Kshs.5,923,145 could not be confirmed.

## **3. Other Grants and Other Payments**

The statement of receipts and payments reflects other grants and other payments of Kshs.56,548,725;(2018-Kshs.37,757,686) and as disclosed under Note 7 to the financial statements. The following unsatisfactory issues were noted: -

### **3.1. Unsupported Bursary Payments**

Acknowledgement receipts for bursary payments amounting to Kshs.27,662,646 by the beneficiaries were not availed.

Consequently, the validity of the payments could not be established.

### **3.2. Unreconciled Bursary on Social Security**

Included in the amount also is Social Security Bursaries amounting to Kshs.4,362,069 which differs with the ledger balance of Kshs.3,461,220 resulting to an unexplained variance of Kshs.900,849.

In the circumstances, the accuracy and validity of other grants and other payments of Kshs.56,548,725 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 - Ndaragwa 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**

#### **Budget Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.161,386,566 and Kshs.106,345,690 respectively resulting to an under-funding of Kshs.55,040,876 or 34 % of the budget. The underfunding affected the planned activities and projects which may have impacted negatively on service delivery for the constituents of Ndaragwa. Further, of the receipts amount realized of Kshs.106,345,690, only Kshs.98,019,857 was absorbed resulting to an under absorption of Kshs. 8,325,833 or 7.8% of the receipts.

No satisfactory explanations have been rendered contrary to the values and principles of public service as provided for under Article 232 (1–c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

In the circumstances, the constituents might have not received the services as planned.

## **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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Unsatisfactorily Implemented Projects**

Ten (10) Projects with a funding allocation of Kshs.26,058,794 were sampled for verification during the month of January, 2020. The individual observations made against the projects are detailed in **Appendix 1**.

No satisfactory explanations have been rendered for the deficiencies in project implementation and non-submission of expenditure returns and non-retention of monies from the contractor's contrary to Section 26(l) of the standard tender document for procurement of works.

Consequently, the constituents of Ndaragwa might not realize value for money from the unsatisfactorily implemented projects for the year ended 30 June, 2019.

## 2. Irregular Expenditure

Included in other grants and other payments amount is transfer of Kshs.3,670,000 on account of diverse projects as detailed out below:

<b>Project</b>	<b>Cheque Number</b>	<b>Work Description</b>	<b>Amount (Kshs.)</b>
Wakanene Dam	9952	Dam embankment used as access road	900,000
Wakanene Dam	9953	Dam embankment used as access road	619,700
Wakanene Dam	9945	Dam embankment used as access road	50,100
Wakanene Dam	9946	Dam embankment used as access road	100,200
D387: Junction D388 Mailo 10 - Junction-B 5 Ndaragwa	9619/20/21	Heavy Grading with watering and compaction, gravel patching	2,000,000
<b>Total</b>			<b>3,670,000</b>

The Management has not rendered satisfactory explanation for the implementation of Projects outside its mandate in contravention with Section 24(a) of the National Government Constituencies Development Fund Act, 2015 which states that a Project under this Act shall only be in respect of works and services falling within the functions of the National Government under the Constitution.

Consequently, the Management is in breach of the law.

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, except for the matter described in the Basis for Conclusion on

Effectiveness of Internal Controls, Risk Management and Overall Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **Lack of Risk Management Policy**

The Fund does not have a Risk Management Policy that guides on assessment and evaluation of risk and to develop the strategies to mitigate them. This is contrary to Regulation 165(1) of the Public Finance Management Act (National Government) Regulations, 2015.

Consequently, it has not been possible to confirm whether the risks faced have been identified and appropriately mitigated.

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 services, disclosing, as applicable, matters related 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 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

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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**

**31 December, 2021**

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## Appendix 1: Unsatisfactorily Implemented Projects

<b>Project Beneficiary and Details</b>	<b>Cost (Kshs.)</b>	<b>Observations</b>
Michinda Primary School - Completion of dormitory from the lintel level roofing, doors and windows plastering flooring and painting	2,000,000	The dormitory was not in use and unlabeled; Electrical works undone; Septic tank not factored in the project design.
Muruai Primary School - Construction to completion of a dormitory	2,000,000	Completed, unlabeled and not handed over; and Contractor was not on-site.
Olborosat Secondary School - Construction of a dining hall to completion for 400 students	4,900,000	The hall has developed huge cracks on the floor and walls and was not in use; Repair works ongoing while painting and plumbing have not been done; and Soil test report to determine the structural works and material needed and engineers' reports were not made available for audit review.
Ritaya Primary School - Construction of three (3) classrooms to completion 3,900,000 and renovation of two (2) Classrooms stone dressing, flooring painting and roofing,	4,900,000	3 classrooms were completed and were in use. 2 renovated classrooms and in use but their sizes are not as per requirements of the Ministry of Education.
Ndaragwa Police Station - Construction of six (6) doors toilet (Kshs.800,000); Completion of OCS's staff house - flooring, plastering, fixing of windows and doors (Kshs.300,000)	1,100,000	Completed and in use.
Shamata Chief's Office - Construction to completion of a modern Chief's office with an armory.	4,900,000	Completed, labeled but not in use.
Subuku Administration Police Post - Construction of 5 staff houses (Kshs.2,500,000) and 4 Doors Staff toilet (Kshs.600,000) to completion	1,588,793	Completed, labeled but not in use.
D387: Junction D388 Mailo 10-Junction-B 5 Ndaragwa - Heavy grading with watering and	2,000,000	Completed and in use but it's a County Government road.

<b>Project Beneficiary and Details</b>	<b>Cost (Kshs.)</b>	<b>Observations</b>
compaction, gravel patching as instructed by engineer		
Kangocho Primary School - Levelling and drainage of the School playing field - Diversion of Stream	1,000,000	Yet to be Implemented
Wakanene Dam - embankment used as access road	1,670,000	Completed, labeled but not in use.  Completed and in use but it's a County Government Project
<b>Grand Total</b>	<b>26,058794</b>	