

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NDHIWA 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 - Ndhiwa Constituency set out on pages 11 to 52, 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 - Ndhiwa 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. Unsupported Expenditure**

The statement of receipts and payments reflects Kshs.12,575,336 being the expenditure on use of goods and services which as disclosed at Note 5 to the financial statements included Kshs.2,381,328 and Kshs.2,500,000 relating to training expenses and payments to a consultant for the development of the 2017-2022 strategic plan, respectively. However, adequate relevant supporting documents including ledgers and payment vouchers for the training expenses were not provided for audit. In addition, the contract agreement between the Constituency Development Fund Committee and the Consultant did not provide the contract deliverables and the contract period. Further, no documents were provided regarding the progress on the development of the strategic plan.

In the circumstances, the propriety, accuracy and completeness of the training expenses of Kshs.2,381,328 and of the expenditure amounting to Kshs.2,500,000 on the strategic plan, could not be confirmed.

#### **2. Inaccuracies in the Financial Statements**

The statement of assets and liabilities reflects a net fund balance of Kshs.778,471 as at 30 June, 2019 described as net liabilities instead of net financial position.

Further, the statement of receipts and payments reflects other grants and transfers of Kshs.47,850,335 which differs with the balance of Kshs.48,800,335 reflected under Note 7 to the financial statements by an unreconciled variance of Kshs.950,000.

In addition, the summary statement of appropriation-recurrent and development combined reflects a final expenditure budget of Kshs.141,186,307 which differs with the casted total of Kshs.141,236,307 by an unexplained difference of Kshs.50,000.

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

### **3. Purchase of Land Expenditure not Budgeted**

The statement of receipts and payments reflects transfers Kshs.35,225,000 to other government units which as disclosed at Note 6 to the financial statements, includes an amount of Kshs.6,100,000 transferred to tertiary institutions. The amount was paid to a firm for the purchase of a parcel of land for Tom Mboya University. However, the purchase of the land was not budgeted for in the 2018/2019 financial year. The payment was therefore contrary to the provisions of Section 68 of the Public Finance Management Act, 2012 which requires resources to be utilized in a way that is lawful and authorized.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Ndhiwa 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 budgeted receipts of Kshs.141,186,307 during the year under review but the transfers from the National Government Constituencies Development Fund Board totalled to Kshs.110,566,837 resulting into an under-funding of Kshs.30,619,470 or 22%. The Fund's expenditure was limited to the receipts realized.

Consequently, some programs and activities were not implemented as planned hence hindering the achievement of the intended objectives of improved service delivery to the residents of Ndhiwa Constituency.

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

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, some of the prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided satisfactory reasons for the delay in resolving the issues.

## 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. Implementation of Security Projects

As disclosed at Note 7 to the financial statements, the other grants and transfers of Kshs.48,800,335 include an amount of Kshs.3,050,000 which was disbursed for three (3) security projects namely; Kakaeta Chief`s Office, Ombo D. O`s Office and Kawere Togo Chief`s Office. However, the projects were implemented directly by the Fund`s Management without the involvement of the Project Management Committees (PMCs) contrary to the provisions of Section 36(1) of National Government Constituencies Development Fund Act, 2015 which requires projects to be implemented by Project Management Committees. Further, the three (3) projects were complete and in use but had not been labeled as required under Regulation 11(1)(cc) of National Government Constituencies Development Fund Regulations, 2016.

In the circumstances, the regularity of the expenditure of Kshs.3,050,000 could not be confirmed.

#### 2. Installation of Double Solar Floodlights in Ten Secondary Schools

As disclosed at Note 6 to the financial statements, the transfers of Kshs.35,225,000 to other government units includes an amount of Kshs.23,600,000 which was allocated for transfers to secondary schools. An amount of Kshs.5,000,000 was paid to a firm on 25 June, 2019 for the supply of double solar flood lights to ten (10) secondary schools at a cost of Kshs.500,000 in each school. However, audit inspection on 17 March, 2020 in five (5) of the schools revealed that the flood lights installed were not functional.

In the circumstances, the regularity and value for money of the expenditure of Kshs.2,500,000 in the five (5) schools could not be confirmed.

#### 3. Supply and Installation of Water Tanks and Gutters in Primary Schools

As disclosed at Note 6 to the financial statements, transfers to other government units amounting to Kshs.35,225,000 included an amount of Kshs.5,525,000 allocated to primary schools of which an amount of Kshs.1,100,000 was paid to a firm on 25 July, 2018 for supply and installation of water tanks and gutters in ten (10) primary schools. However, audit inspection in Dunga, Kolwalo and Malela Primary Schools on 18 March, 2020, revealed that the water tanks had not been supplied and installed in the three (3) schools yet the supplier had been paid in full.

In the circumstances, the regularity and value for money of the expenditure of Kshs.1,100,000 could not be confirmed.

#### 4. Unimplemented Projects

The transfers of Kshs.5,525,000 to primary schools disclosed at Note 6 to the financial statements, includes Kshs.1,200,000 comprising disbursement of Kshs.150,000 to eight (8) primary schools for flooring and cementing of classrooms. However, as at the time of the audit in March, 2020, the projects were yet to be started although the funds had already been transferred to the bank accounts of the PMCs.

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

Audit inspection of projects in March 2020 revealed incomplete projects and other anomalies as shown in the table below:

Project Name	Approved Activity	Amount Disbursed (Kshs.)	Implementation Status
Mirogi Boys Secondary School	Construction of 1 No. classroom- (foundation, walling, roofing, plastering and fittings).	500,000	-Project was ongoing.
Oridi Girls Secondary School	Completion of an ongoing construction of 1No. classroom (roofing, plastering, fittings and painting).	500,000	-Project was incomplete (only foundation and walling were done up to the lintel level).
Rambusi Mixed Secondary School	Completion of an on-going dormitory- (lintel, roofing, fitting, plastering and painting).	1,000,000	-Project was incomplete (only foundation and walling were done up to lintel level).
Bongu Girls Secondary School	Building of gables, roofing, plastering, flooring and painting of a laboratory.	600,000	-Project was incomplete but in use (gables and roofing were done while flooring and painting were not done).
<b>Total</b>		<b>2,600,000</b>	

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 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 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, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the ability of the National Government Constituencies Development Fund - Ndhiwa 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 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 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 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 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 sustaining 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**

**12 January, 2022**