

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TIGANIA WEST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Tigania West Constituency set out on pages 25 to 89, which comprise of the statement of assets and liabilities as at 30 June, 2020, 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Tigania West Constituency as at 30 June, 2020, 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**

#### **1.0 Accuracies in the Financial Statements**

##### **1.1 Inaccuracies in Statement of Receipts and Payments Comparative Balances**

As reported in the previous year, the statement of receipts and payments and the statement of cash flows both reflect opening balances of transfer to other Government Units and other grants and transfers total of Kshs.37,039,315 and Kshs.58,957,299 respectively both totalling to Kshs.95,996,614. However, the opening balances in Note 6 and Note 7 to the financial statements, reflect transfer to other Government Units and other grants and transfers total of Kshs.36,788,315 and Kshs.57,253,507 respectively both totalling to Kshs.94,041,822 resulting to an unexplained and unreconciled variance totalling to Kshs.1,954,792.

Further, Note 5 to the financial statements reflects use of goods and services opening balance of Kshs.6,478,312. However, the same item in the 2018/2019 financial statements reflected a total of Kshs.6,578,312 resulting to an unexplained and unreconciled variance totalling to Kshs.100,000.

In the circumstances, the accuracy, completeness and validity of the above comparative balances for the year ended 30 June, 2020 could not be confirmed.

## 1.2 Inaccuracies in Summary Statement of Appropriation

The summary statement of appropriation - recurrent and development combined reflects three (3) expenditure items balances that deferred on comparable basis with the budget execution by programmes and sub-programmes resulting to an unexplained and unreconciled variance totalling to Kshs.9,362,595 as shown below:

<b>Item</b>	<b>Balances in the Summary Statements of Appropriation (Kshs.)</b>	<b>Balances in the Budget Execution by Programmes and Sub-Programmes (Kshs.)</b>	<b>Variance (Kshs.)</b>
Total Adjustments	61,729,417	64,850,282	3,120,865
Total Final Budget	199,097,141	202,218,006	3,120,865
Total Budget Utilization Difference	79,218,124	82,338,989	3,120,865
<b>Total</b>			<b>9,362,595</b>

Further, the Management did not prepare separate summary statements of appropriation for recurrent and development as required by the Public Sector Accounting Standards Board (PSASB).

Consequently, the accuracy, completeness and validity of the two (2) sets of financial statements for the year ended 30 June, 2020 could not be confirmed.

## 2. Unsupported Committee Bank Balances

Note 17.4 to the financial statements reflects Project Management Committee (PMC) bank balances totalling to Kshs.11,937,092 as at 30 June, 2020. However, a recast of the balances gave a total of Kshs.11,977,369 resulting to an unexplained and unreconciled variance of Kshs.40,277.

Further, the respective cashbooks and bank reconciliation statements were not provided.

In the circumstances, the accuracy, completeness and validity of the PMC bank balances totalling to Kshs.11,937,092 as at 30 June, 2020 could not be confirmed.

## 3. Other Grants and Other Payments

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments totalling to Kshs.58,651,790. The following observations were noted:

### **3.1. Unsupported Environment Projects**

The balance includes environment projects expenditure amounting to Kshs.2,747,354 paid to a supplier for the supply of 86,420 assorted seedlings. However, a distribution list to the intended beneficiaries, store's issue vouchers (S.11 forms) and an environmental impact assessment report were not provided.

In addition, request for quotations was used without justification contrary to the first schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013 which caps the maximum amount for use of request for quotation for goods for class C procurement entity to Kshs.500,000.

Consequently, the accuracy, completeness and validity of the expenditure totalling to Kshs.2,747,354 for the year ended 30 June, 2020 could not be confirmed.

### **3.2. Unsupported Bursary**

The balance includes Bursary to Secondary Schools amount of Kshs.18,690,235, Tertiary Institutions amount of Kshs.5,934,500 and Special Schools amount of Kshs.344,000 all totalling to Kshs.24,968,735. However, bursaries totalling to Kshs.696,200 were not acknowledged by the recipient institutions or accounted for by the Management.

In the circumstance, the accuracy, completeness and validity of bursaries totalling to Kshs.696,200 for the year ended 30 June, 2020 could not be confirmed.

## **4. Unsupported Project Implementation Status Report**

Note 6, Note 7, and Note 8 to the financial statements, the statement of receipts and payments reflects transfers to other Government Entities amount of Kshs.49,653,030, other grants and other payments amount of Kshs.58,651,790 and acquisition of assets amount of Kshs.4,312,700 all totalling to Kshs.112,617,520 spent on projects implementation in the year under review. The Project Implementation Status Report provided reflected completed projects amounting to Kshs.27,331,415, on-going projects amounting to Kshs 66,108,947 and new projects amounting to Kshs.42,362,366 all totalling to Kshs.135,802,728. However, the Report was not analyzed in sectors. It was therefore not possible to carry out projects analysis for the year under review.

In the circumstances, the accuracy, completeness and validity of the expenditure amounting to Kshs.135,802,728 for the year ended 30 June, 2020 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 - Tigania West 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 final receipts budget and actual on comparable basis totalling to Kshs.199,097,141 and Kshs.129,729,416 respectively, resulting to an under-funding of Kshs.69,367,725 or 35% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.199,097,141 and Kshs.119,879,017 respectively, resulting to an under expenditure of Kshs.79,218,124 or 40% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **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. Irregular Expenditure**

The Management incurred an expenditure, under transfers to primary schools, for changing the electricity powered water pump to solar powered pump of 5.5Kw amounting to Kshs.2,300,000 and rehabilitation and commissioning of a borehole amounting to

Kshs.2,000,000 both totalling to Kshs.4,300,000 at Lubunu Primary School. The tender for the works was awarded to a contractor at a contract sum of Kshs.4,410,010.

However, request for quotation was used to award the contract without justification contrary to the first schedule of the Public Procurement and Disposal (Amendments) Regulations, 2013 which caps the maximum amount for use of request for quotation for works for class C procurement entity to Kshs.500,000.

In the circumstances, the Management is in breach of the law.

## **2. Irregular Emergency Projects**

The Management incurred an expenditure, under emergency projects, amounting to Kshs.500,000 for the completion of Kirindine Social Hall. Physical verification in December, 2020 revealed that the funds were used to complete the flooring.

Further, the Management incurred an expenditure on office furniture and repairs in the Deputy County Commissioner's Office amounting to Kshs.1,000,000.

However, no evidence was provided to confirm that the above projects were emergency in nature. This is contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states that an emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

In the circumstances, the Management is in breach of the law.

## **3. Irregular Procurement**

The Management incurred an expenditure amounting to Kshs.5,558,642 for the construction of an office block which comprised of three (3) offices, a reception, three (3) cells, an armory and an interview room at Miathene Police Post. The construction works was awarded to a contractor at a contract price of Kshs.5,518,744. However, request for quotation method of procurement was used without justification contrary to the first schedule of the Public Procurement and Disposal (Amendments) Regulations, 2013 which caps the maximum amount for use of request for quotation for works for class C procurement entity to Kshs.500,000. Further, physical verification in December, 2020 revealed that the project was complete but was not in use.

In the circumstances, the validity and value for money for the expenditure of Kshs.5,558,642 incurred could not be confirmed.

## **4. Unutilized Project - Miathene Administration Police Staff Quarters**

During the year, the Management incurred an expenditure amounting to Kshs.360,000 for completion of three (3) staff quarters at Miathene Administration Police Post. As reported in the previous year, the Management had funded the project for a total of

Kshs.2,500,000 bringing the funding to a total of Kshs.2,860,000. However, during physical verification in December, 2020 the project had not been occupied.

In the circumstances, I am unable to confirm whether value for money totalling to Kshs.2,860,000 for the construction of AP staff quarters has been realized.

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 Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to 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 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**04 November, 2021**