

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND-TONGAREN 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 - Tongaren Constituency set out on pages 9 to 31, 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. 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 – Tongaren 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**

#### **1.0 Other Grants and Transfers**

##### **1.1 Un-disclosed Expenditure**

The statement of receipts and payments reflects other grants and transfers of Kshs.42,198,690. However, a review of the payment vouchers for the payments made during the year under review, revealed that expenditure totalling to Kshs.838,790 had been excluded from the balance.

Consequently, the accuracy of the reported balance for other grants and transfers could not be confirmed.

Further, Regulation 21(3) of National Government Constituency Development Fund Regulations, 2016, provides that a Constituency Committee shall vet all persons proposed to receive support in accordance with the guidelines issued by the Board. However, the bursary vetting committee minutes and reports were not provided for audit verification. It could therefore not be confirmed that bursary awards were done in a transparent manner and to the deserving beneficiaries.

##### **1.2 Unsupported Bursaries**

Included in other grants and transfers of Kshs.42,198,690 is Kshs.13,381,858, Kshs.15,422,665 and Kshs.975,940 being bursaries to secondary schools, tertiary institutions and special schools respectively. However, the bursary amounts reflected in the supporting schedules differed with the amounts paid as per the payment vouchers as summarized below:

	<b>Payment Voucher No.</b>	<b>Details</b>	<b>Amount in Schedule (Kshs.)</b>	<b>Payment Voucher Amount (Kshs.)</b>	<b>Variance (Kshs.)</b>
1	181935	Bursaries - Tertiary	1,610,300	1,570,300	40,000
2	181947	Bursaries - Tertiary	435,200	428,200	7,000
3	181983	Bursarie - Secondary	203,000	293,000	(90,000)
4	181984	Bursaries - Secondary	6,490,000	6,544,315	(54,315)
5	181985	Bursaries - Tertiary	799,315	640,000	159,315
6	181991	Bursaries - Secondary	1,511,000	1,196,000	315,000
7	181992	Bursaries - Special	90,790	58,000	32,790
8	181993	Bursaries - Tertiary	150,000	85,000	65,000
9	1819126	Bursaries - Tertiary	12,289,000	11,902,000	387,000
10	1819128	Bursaries - Secondary	4,943,516	3,616,000	1,327,516

The variances were not explained or reconciled.

In the circumstances, it was not possible to ascertain the accuracy and completeness of the bursary payments included in the reported balance for other grants and transfers.

## **2.0 Variances Between Statement of Appropriation and Statement of Budget Execution by Programmes and Sub-Programmes**

The balances reflected in the statement of budget execution by programmes and sub-programmes differed with the ones reflected in the statement of appropriation-recurrent and development combined and the statement of receipts and payments as summarized below:

<b>Item</b>	<b>Budget as per Statement of Budget Execution by Programmes and Sub-Programmes (Kshs.)</b>	<b>Budget as per Summary Statement of Appropriation (Kshs.)</b>	<b>Difference (Kshs.)</b>	<b>Actual Expenditure as Per Statement of Budget Execution by Programmes and Sub-Programmes (Kshs.)</b>	<b>Actual Expenditure as per Summary Statement of Appropriation (Kshs.)</b>	<b>Difference (Kshs.)</b>
Compensation of Employees	4,533,574	5,913,167	(1,379,593)	1,964,442	3,586,488	(1,622,046)
Use of Goods and Services	13,242,917	11,586,907	1,656,010	9,381,549	11,583,906	(2,202,357)
Transfers to Other Government Units	86,654,285	95,521,154	(8,866,869)	86,654,285	95,711,523	(9,057,238)

Other Grants and Transfers	43,525,640	47,995,646	(4,470,006)	41,401,731	42,198,690	(796,959)
Other Payments	4,677,027	5,846,284	(1,169,257)	4,677,027	5,846,284	(1,169,257)
Undisbursed	1,000,000		1,000,000			-
<b>Total</b>	<b>153,633,443</b>	<b>166,863,158</b>	<b>(13,229,715)</b>	<b>144,079,034</b>	<b>158,926,891</b>	<b>(14,847,857)</b>

No explanation or reconciliation was provided for the variances.

Consequently, the accuracy of the financial statements could not be ascertained.

### 3.0 Unresolved Prior Year Matters

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund – Tongaren 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.

## 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

#### 1.0 Projects Implementation Status

According to the project implementation status report provided, a total of Kshs.557,128,157 was disbursed for four-hundred and sixty (460) projects whose implementation was at various stages as summarized below:

Status	2017/2018 and Earlier Years		2018/2019		Total	
	No.	Value (Kshs.)	No.	Value (Kshs.)	No.	Value (Kshs.)
Completed	338	348,902,882	41	45,323,542	379	394,226,424
Ongoing	46	76,589,240	16	25,938,993	62	102,528,233
Funds Not Disbursed	2	13,874,500	6	32,399,000	8	46,273,500
Funds Not Approved	0	-	11	14,100,000	11	14,100,000
<b>Total</b>	<b>386</b>	<b>439,366,622</b>	<b>74</b>	<b>117,761,535</b>	<b>460</b>	<b>557,128,157</b>

From the above, 46 projects with disbursements of Kshs.76,589,240 relating to 2017/18 and earlier years that would have been completed by 30 June, 2019 or earlier were still ongoing.

In addition, sixteen (16) projects with disbursements of Kshs.44,150,000 were ongoing as at the time of audit in June 2020 yet they should have been completed and handed over by December 2019. Further, another two (2) projects already approved relating to prior years and expected to receive Kshs.13,874,500 had not yet received their disbursement as scheduled, while in 2018/2019, six (6) projects are recorded as not having been funded for Kshs.32,399,000. The Constituency Committee was therefore in breach of Regulation 11(j) of National Government Constituencies Development Fund Regulations, 2016 which requires all projects to receive adequate funding and be completed within three (3) years.

Kshs.14,100,000 was disbursed for eleven (11) projects without approved budget under unclear circumstances and contrary to Regulation 25(2) of National Government Constituencies Development Fund Regulations, 2016 which provides that a Constituency Committee shall not incur expenditure unless such expenditure is supported by an approved work plan, a procurement plan and a budget.

Delayed implementation of projects denies the residents of Tongaren Constituency the benefits or services they would have derived from them.

## 2.0 Project not Implemented at Kiminini Secondary School

Included in the transfers to other government units balance of Kshs.95,711,523 reflected in the statement of receipts and payment, is Kshs.800,000 and Kshs.1,500,000 disbursed to Kiminini Friends Secondary School Project Management Committee for purchase of one acre piece of land and construction of a twin laboratory, respectively. However, as at the time of audit, in July 2020, the two projects had not been implemented and no evidence was provided that the total amount of Kshs.2,300,000 was still held intact.

In the circumstances, the propriety of the transfers of Kshs.2,300,000 could not be confirmed.

### **3.0 Propriety of Strategic Plan Workshops Facilitation**

The statement of receipts and payments reflects Kshs.11,583,906 for use of goods and services which included Kshs.861,900 being facilitation to a consultant towards the delivery of the strategic plan. However, the expenditure was not supported with relevant documents including reports of public participation, ward meetings minutes, monitoring and evaluation reports as well as minutes of meetings held with various stakeholders and consultants on the strategic plan.

Consequently, value for money on the expenditure could not be confirmed.

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 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 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 entity 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 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 Fund's 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 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 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**

**16 September, 2021**