

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KABUCHAI 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 - Kabuchai Constituency set out on pages 13 to 42, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and a 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 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 the National Government Constituencies Development Fund - Kabuchai Constituency as at 30 June, 2020, 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.

### **Basis for Qualified Opinion**

#### **1. Bank Balances**

As disclosed in Note 9 to the financial statements, the statement of financial position reflects bank balances of Kshs.31,155 as at 30 June, 2020. However, the bank reconciliation statement as at 30 June, 2020 reflects payments in bank statement not yet recorded in cash book of Kshs.119,340 which includes payments amounting to Kshs.35,000 relating to the year 2018. No explanation was provided for not recording these long outstanding payments in the cashbook.

Further, the bank reconciliation statement reflects unpresented cheques figure of Kshs.5,540,123 which is also erroneously indicated against receipts in bank statement not yet recorded in cash book. Similarly, the payments in bank statement not yet recorded in cash book of Kshs.119,340 is also erroneously reflected as receipts in cash book not yet recorded in bank statement.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.31,155 could not be confirmed.

#### **2. Unsupported Purchase of Parcels of Land and School Buses**

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects transfers to other government unit of Kshs.52,305,860 which

includes an expenditure of Kshs.22,300,998 on procurement of 5 acres of land and three (3) buses for ten (10) schools as detailed in **Appendix 1**.

However, the title deeds for the parcels of land and a log book for one of school buses were not provided for audit verification and as a result, the ownership of the land and the bus could not be confirmed.

In addition, procurement documents such as professional opinion, notification of ward and pre and post-mechanical report, contract agreements between Kabuchai NG-CDF and the schools for buses were not provided for audit verification.

In the circumstances, the accuracy and completeness of the Kshs.22,300,998 incurred in the purchase of the land and school buses could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kabuchai Constituency Management in accordance with ISSAI 130 on the 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 reflects final receipts budget and actual on comparable basis of Kshs.195,389,862 and Kshs.126,022,138 respectively resulting to an under-funding of Kshs.69,367,724 or 35 % of the budget.

In addition, reflects final expenditure budget and actual on comparable basis of Kshs.195,389,862 and Kshs.125,992,983 respectively resulting to an under-absorption of Kshs.69,396,879 or 36 % of the budget.

The under-funding and under-absorption affected the planned projects which may have impacted negatively on service delivery for the constituents of Kabuchai Constituency.

#### **2. Project Implementation Performance**

The Project Implementation Status report as at 30 June, 2020 indicates that out of a total of ninety-three (93) projects planned for implementation at an estimated cost of Kshs.164,624,138, fifty-eight (58) projects with estimated cost of Kshs.113,314,138 had been completed, eleven (11) with estimated cost of Kshs.22,950,000 were still

ongoing and twenty-four (24) with estimated cost of Kshs.28,360,000 had not been started.

Consequently, the Management did not achieve its project implementation targets which may have impacted negatively on provision of services to the constituents of the Kabuchai Constituency.

## 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. Unutilized PMC Bank Balances not Transferred to the Fund's Account

Included in the total figure of Kshs.16,111,200 reflected in the Project Management Committee (PMC) bank balances as at 30 June, 2020 at Annex 3 is Kshs.12,042,966 relating projects which, according to the Project Implementation Status (PIS) Report, had been completed and were in use as detailed in **Appendix 2**.

However, these unutilized bank balances had not been transferred back to the Constituency Bank Account and appropriated to other projects as per the provisions of Section 12(7) of the National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the PMCs shall be returned to the constituency account.

Consequently, the Management was in breach of the law.

#### 2. Verifications of Implemented Projects

As disclosed in Note 4 and 5 to the financial statements, the statement of receipts and payments reflects transfers of Kshs.52,305,860 and Kshs.54,023,355 to other Government Units and Other Grants and Other Payments respectively. Verifications on the implementation of various projects revealed the following unsatisfactory issues:

##### 2.1 Construction of 10 Pit Latrines at Misiri Primary School

During the year under review, the Project Management Committee awarded the contract to construct 10 No. Latrines at Misiri Primary School to a local firm at a contract sum of Kshs.500,000. However, the Management did not provide documentary evidence of a report from the Ministry of Health as proof that the project was emergency in nature.

In addition, site visit in February, 2021 revealed that only 6 latrines out of the contracted 10 were constructed.

In the circumstances, the regularity and value for money on the Kshs.500,000 incurred in the construction of the 10 No. pit latrines could not be confirmed.

## **2.2 Renovation of Five Classrooms at Namilama DEB Primary School**

During the year under review, the PMC disbursed Kshs.800,000 from the emergency reserve and Kshs.726,676 from transfers to other government units to Namilama DEB Primary School for renovation of five (5) classrooms. The contract was awarded to a local firm at a contract sum of Kshs.1,526,676. However, the tender opening and tender evaluation was carried out by the same committee while no professional opinion was issued.

In addition, the project was partly funded using the emergency budget despite the entire project not being an emergency in nature.

A physical verification in February, 2021 revealed that the project was incomplete and the contractor had abandoned the site, despite receiving the full contract sum of Kshs.1,526,676.

In the circumstances, the regularity and value for money on the Kshs.1,526,676 incurred in renovation of classrooms at Namilama DEB Primary School could not be confirmed.

## **2.3 Construction of One Classroom and Two Pit Latrines at Nangubo Primary School**

During the year under review, the PMC disbursed Kshs.1,000,000 to Nangubo Primary School for the construction of one classroom to completion and two pit latrines. The contract was awarded to a local company at a contract sum of Kshs.1,000,000. However, the tender documents and bills of quantities for the construction of the latrines were not provided for audit verification.

A physical verification in February, 2021 revealed that the flooring of the classroom was incomplete, windows had not been fixed and doors had not been fixed to the pit latrines had not been fixed with and had not been painted. The project was therefore incomplete despite the fact that the contractor had been paid in full the contract sum of Kshs.1,000,000.

In the circumstances, the regularity and value for money on the Kshs.1,000,000 incurred on the construction of a classroom and two latrines at Nangubo Primary School could not be confirmed.

## **2.4 Construction of One Classroom and Two Pit Latrines at Namikelo DEP Primary School**

During the year under review, the PMC disbursed Kshs.1,000,000 to Namikelo DEB Primary School for the construction of one classroom and two pit latrines. The contract was awarded to a local firm at a sum of Kshs.1,000,000. However, supporting documents, including procurement document and inspection and acceptance report were not provided for audit verification. Further, the iron sheets used were not pre-painted as the ones specified in the bills of quantities.

In the circumstances, the regularity and value for money on the Kshs.1,000,000 incurred on the construction of a classroom and two latrines at Namikelo Primary School could not be confirmed.

### **3. Non-Insurance of Fixed Assets**

Annex 2, a summary of fixed assets register, to the financial statements for the year under review reflects a fixed assets balance of Kshs.22,979,043, which have not been insured, contrary to Section 36(3) of the National Government Constituencies Development Fund Act, 2015 which stipulates that all fixed and movable assets, including equipment bought under this Act for use by the Constituency Committee, shall be the property of the Board and shall be insured in the name of the Board.

Consequently, the Management was 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 comply, 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 effective 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 Fund's ability to sustain 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 effectively.

Those charged with governance are responsible for overseeing the 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 based on 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 comply with the authorities that govern them and that public resources are applied effectively, 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 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 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 scepticism 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**11 February, 2022**

## **Appendix 1**

### **Purchase of Land and School Buses**

<b>School</b>	<b>Purpose</b>	<b>Cost Kshs.</b>	<b>Amount Paid During the Year Kshs.</b>
Nangwe Secondary School	Purchase of 3/4 acre land	800,000	800,000
St. Joseph Nalondo Girls' Secondary School	Purchase of 3/4 acre land	800,000	800,000
Bwake Secondary School	Payment for School Bus	4,500,000	1,200,000
Namilama Secondary School	Payment of School Bus	2,948,748	1,948,750



<b>School</b>	<b>Purpose</b>	<b>Cost Kshs.</b>	<b>Amount Paid During the Year Kshs.</b>
St. Kizito Girls Mukhweya Secondary School	Purchase of 1 acre land	950,000	700,000
Sanandiki Girls' Secondary School	Purchase of ¼ acre land	1,050,000	810,000
Chebukwa Secondary School	Purchase of School Bus	7,162,250	7,162,250
Pongola Secondary School	Purchase of ¾ acre land	1,240,000	540,000
Kasosi Secondary School	Purchase of ¾ acre land	850,000	250,000
Chemwa Secondary School	Purchase of ¾ acre land	2,000,000	0
<b>Total</b>		<b>22,300,998</b>	<b>14,211,000</b>

## Appendix 2

### Unutilized PMC Account Balances

<b>PMC</b>	<b>Balance as at 30 June, 2020 Kshs.</b>
Kabuchai Constituency Environment	4,712
Kabuchai Constituency Sports	19,772

<b>PMC</b>	<b>Balance as at 30 June, 2020 Kshs.</b>
CDF Office	6,225
St. Peters Lurende Secondary School	33,800
Khatiri Secondary School	21,820
Bwake Secondary School	2,325
Chekulo Baptist Secondary School	750
Sikusi Secondary School	1,016,914
St.Kizito Secondary Mukweya Secondary School	5,930
Sa.Wabukhonyi Secondary School	1,463
Sandadiki Girls Secondary School	167,838
Pongola Secondary School	4,445
Kasosi Secondary School	445
Chemwa Secondary School	3,563
Nangwe Girls' Secondary School	10,906
Baraki Secondary School	1,001,265
Kimalewa Secondary School	4,275
Sikulu Secondary School	7,845
Chebukwa Secondary School	7,166,755
Nangubo Primary School	3,663
Kiboochi Primary School	2,220
Nasaka Primary School	1,278
Lubembe Primary School	155,425
Matibo FYM Primary School	5,870
Sitila Primary School	999
Nalondo R.C Primary School	3,213
Nangwe Primary School	8,288
St.Walumoli Primary School	982,675
Hon. Wetangula Sango Primary School	857,554
Chepsitati Primary School	496,082
Chebukaka Girls Primary School	1,500
Namaondo Primary School	1,958
Assistant Chief's Office Sikusi	17,197
Assistant Chief's Office Kabuchai	20,284
Assistant Chief's Office West Nalondo	3,712
<b>Total</b>	<b>12,042,966</b>