

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MUMIAS EAST 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 - Mumias East Constituency set out on pages 13 to 35 which comprise the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the 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 the National Government Constituencies Development Fund - Mumias East 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 CDF Act 2015.

### **Basis for Qualified Opinion**

#### **1.0 Accuracy and Presentation of the Financial Statements**

##### **1.1 Compensation of Employees**

The statement of receipts and payments reflects compensation of employees amounting to Kshs.3,015,457 also disclosed in Note 4 to the financial statements. However, recasting of the amounts in the note adds to Kshs.3,465,457 resulting in unexplained variance of Kshs.450,000. In addition, the prior year comparative amount for compensation of employees is indicated as Kshs.2,743,393 while casting of the amounts making up the total adds to Kshs.3,289,133, resulting in a variance of Kshs.545,740.

Further, the prior year comparative amount of Kshs.2,743,393 for compensation of employees differ with the audited amount of Kshs.2,146,040 for the year ended 30 June, 2019. No explanation was provided for the differences.

##### **1.2 Use of Goods and Services**

The statement of receipts and payments also reflects Kshs.10,919,396 under use of goods and services. However, supporting schedules provided for the expenditure reflects a total of Kshs.9,922,756, resulting in unexplained and unreconciled variance of Kshs.996,640.

### **1.3 Other Grants and Transfers**

The other grants and transfers amount of Kshs.46,392,164 reflected in the statement of receipts and payments and detailed in Note 7 to the financial statements. The amount includes Kshs.13,589,850 in respect of bursaries to secondary schools. However, the amount differ with the support schedules provided for audit review, which reflected an amount of Kshs.12,529,427 resulting in unreconciled variance of Kshs.1,060,423.

### **1.4 Summary Statement of Appropriation**

The summary statement of appropriation - recurrent and development combined reflects an amount of Kshs.25,512,423 in respect of total budget adjustments for the year under review. However, the total adjustments differ with unutilized fund balance of Kshs.19,843,194 for the year 2018/2019. No explanation was given on the basis for the adjustments made to the budget during the year under review.

### **1.5 Acquisition of Assets**

The statement of receipts and payments for the year ended 30 June, 2020 reflects nil amount under acquisition of assets. However, review of expenditure on use of goods and services revealed expenditure totalling Kshs.298,885 paid to three (3) suppliers for supply of furniture and office equipment during the year under review. The amounts ought to have been classified under acquisition of assets.

In the circumstances, the accuracy and completeness of the amounts reflected in the financial statements could not be confirmed.

## **2. Unconfirmed of Bursary Disbursements**

Note 7 to the financial statements reflects an amount of Kshs.46,392,164 in respect of other grants and transfers. The amount includes Kshs.12,529,427 and Kshs.7,224,000 disbursed as bursaries to secondary schools and tertiary intuitions respectively. However, only a total of Kshs.8,683,050 was acknowledged to have been received from the beneficiary institutions during the year under review, leaving a balance of Kshs.11,070,377 unconfirmed.

In the circumstances, it could not be ascertained whether bursaries amounting to Kshs.11,070,377 reached the intended recipients.

## **3. Unsupported Payments for Fuel and Lubricants**

The use of goods and services expenditure amounting to Kshs.10,919,396 reflected in the statement of receipts and payments includes an amount of Kshs.750,000 incurred on fuel and lubricants. However, the expenditure was not supported with a detailed schedule of fuel consumption, a fuel register, detail orders and local purchase orders (LPOs).

In the absence of the support documents, the accuracy and validity of the expenditure on fuel and lubricants could not be confirmed.

#### **4. Cash and Cash Equivalents**

The statement of assets and liabilities as at 30 June, 2020 reflects cash and cash equivalents amounting to Kshs.5,632,177. Examination of bank reconciliation statements in respect of the bank balances revealed four (4) unpresented cheques totalling Kshs.412,954 which were stale and not payable as at 30 June, 2020. However, the stale cheques were not reversed in the cashbook.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance as at 30 June, 2020 could not be confirmed.

#### **5. Unsupported Monitoring and Evaluation Expenses**

Note 5 to the financial statements on use of goods and services reflects committee expenses amounting to Kshs.2,845,600. Included in the amount was Kshs.1,285,600. in respect of monitoring and evaluation of projects. However, the payments were not supported with a list of projects visited, monitoring and evaluation reports by the teams and an attendance register for the of the monitoring and evaluation activities.

In addition, a payment of Kshs.819,200 made on 17 December, 2019 in respect of official launching of Wanga Technical and Vocational College was irregularly charged to monitoring and evaluation.

Consequently, the accuracy and validity of expenditure on monitoring and evaluation 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 - Mumias East 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. Budget Analysis**

The summary statement of appropriation:- recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.162,880,147 and Kshs.92,301,000 respectively resulting to shortfall of Kshs.70,579,147 or 43% of the approved budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.162,880,147 and Kshs.106,512,017 respectively, resulting in underperformance amounting to Kshs.56,368,130 or 35% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Mumias East Constituency.

## **2. Project Implementation Status Reports**

The projects implementation status report for Mumias East Constituency revealed that the Management of the Fund had planned to implement seventy-seven (77) projects with a funding allocation of Kshs.99,532,879 in the year under review. The report further indicates that twenty-eight (28) projects with an allocation of Kshs.36,826,795 or 36% of the planned projects had been completed, nineteen (19) projects allocated Kshs.24,244,944 or 25% were ongoing while twenty-nine (29) projects with a funding allocation of Kshs.36,826,795 or 38% had not stated as at the time of audit in March 2021.

Delay in implementation and completion of the projects means that the constituents of Mumias East were deprived of the benefits that may have accrued from the fund.

## **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. Transfer to Other Government Entities**

##### **1.1. Irregularities in Construction Works at KMTC - Shianda**

Transfers to other government entities amounting to Kshs.46,185,000 as reflected in the statement of receipts and payments includes Kshs.33,485,000 transferred to Kenya Medical Training Collenge (KMTC) - Shianda for implementation of various projects, However, review of records relating to the implementation of projects revealed a number of anomalies as detailed below:

- i. A total sum of Kshs.33,485,000 was spent on the project against an approved budget of Kshs.31,985,000, resulting in over expenditure of Kshs.1,500,000.
- ii. An unapproved contract variation entailing construction of six-door pit latrines which was not in the approved design and bills of quantities was incorporated in the project.

- iii. Project progress reports such as site instructions and approvals by the supervising engineer were not availed for audit.
- iv. An ambulance for the institution provided for in the budget at a cost of Kshs.4,500,000 was not purchased.
- v. There were cash withdrawals from Shianda KMTC PMC account amounting to Kshs.3,127,930 which did not have any supporting documentation.

## **1.2. Incompletion Twin Laboratory at St. Mary's Shitoto Girls Secondary School**

During the year under review, the fund awarded a contract to a local firm for construction of a twin laboratory at St. Mary's Girls Shitoto at a contract sum of Kshs.1,968,800. The contractor had been paid in full as at the time of audit in March, 2021.

The scope of works included construction of rainwater collection facilities doors, finishes, fittings, plumbing works, electrical works as well as the completion of the fume chamber in the laboratory. However, physical verification at the project site revealed incomplete works for work tops, rainwater facilities, plumbing and electrical works and fittings. Further, the soak pit drainage and fume chambers works not done.

Consequently, value for money may never be achieved as a result of incomplete works.

## **1.3. Unauthorized Payments**

The Constituency Fund Committee made payments to National Hospital Insurance Fund (NHIF) during the year under review in respect of contributions towards vulnerable community members amounting to Kshs.4,452,000, under social security programs. The payments included Kshs.3,000,000 paid on 18 June, 2020 which had not been authorized by the sub-county accountant. Further, the payment lacked an acknowledgement receipt from NHIF.

In the absence of the supporting documents and requisite approval, the authenticity of the payment could not be confirmed.

## **2. Irregular Procurement of Emergency Items**

Note 7 to the financial statements on other grants and transfers reflects emergency payments amounting to Kshs.9,092,090. The expenditure includes a payment of Kshs.812,000 in April, 2020 in respect of the supply and delivery of 25 infrared forehead thermometers and 100 boxes of 3ply face masks to the Constituency office. Additionally, a local supplier was paid Kshs.754,650 to Supply and deliver 30 canisters, 22 handwashes and a 250 litres rectangular tanks handwashing set.

However, the following irregularities were noted in respect of the above payments;

- i. No requisitions were made for the procured items hence the users were not identified.

- ii. No counter receipts vouchers were availed for audit such as S11 and S13, and thus it could not be confirmed whether the items were received and distributed.
- iii. No inspection and acceptance committee report was attached as evidence that the required items were delivered in their right quantity and specifications.

In the circumstance, the validity and value for money on expenditure incurred 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 standard requires 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intentions to liquidate 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 Fund's activities, financial transactions, and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 NGCDF-Mumias East 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 sustainability 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 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**

**09 February, 2022**