

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SIRISIA 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 - Sirisia Constituency set out on pages 13 to 34, which comprise 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 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 - Sirisia 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 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Accuracy and Completeness of Financial Statements**

##### **1.1 Use of Goods and Services/Acquisition of Assets**

Included in the use of goods and services balance of Kshs.8,165,260 reflected in the statement of receipts and payments for the year under review and as disclosed in Note 3 to the financial statements is office and general supplies and services figure of Kshs.2,470,505. However, the amount of Kshs.2,470,505 excludes an expenditure of Kshs.456,000 which has been inappropriately accounted for under acquisition of assets balance of Kshs.2,154,677. Therefore, the use of goods and services figure of Kshs.8,165,260 is understated by Kshs.456,000, while acquisition of assets amount of Kshs.2,154,677 is overstated by the same amount.

Further, included in the office and general supplies and services figure of Kshs.2,470,505 is an expenditure of Kshs.1,409,000 incurred on assorted stationary. However, no inspection and acceptance reports were provided for audit verification and the stationaries were not captured in the stores records.

##### **1.2 Summary Statement of Appropriation**

The summary statement of appropriation: recurrent and development combined for the year under review reflects compensation of employees budget utilization difference of Kshs.3,302,420 and utilization being 37%. However, computations revealed a figure of Kshs.2,983,406 and 57% translating to a variance of Kshs.319,014 and 20%

respectively. Further, the statement reflects use of goods and services % of utilization figure of 92% which differs with recomputed percentage of 89% leading to a variance of 3%.

### **1.3 Summary of Fixed Assets Register**

The summary of fixed assets register schedule at Annex 2 to the financial statements reflects total fixed assets balance as at 30 June, 2020 of Kshs.31,754,807 which includes addition of office equipment, furniture and fittings of Kshs.2,154,677. However, according to the supporting schedule availed, the additions figure of Kshs.2,154,677 includes consumables of Kshs.456,000 which are not fixed assets. Therefore, the total assets figure of Kshs.31,754,807 is overstated by Kshs.456,000.

In view of the foregoing, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

### **2.0 Cash and Cash Equivalent**

The statement of assets and liabilities as at 30 June, 2020 reflects cash and cash equivalents balance of Kshs.156,805 which was arrived at after deducting unrepresented cheques totalling Kshs.11,059,258. The statutory cheques include statutory deductions amounting to Kshs.636,698, comprising NHIF, NSSF, PAYEE and ITAX amounts of Kshs.19,770, Kshs.13,200, Kshs.40,897 and Kshs.562,832 respectively. However, scrutiny of the unrepresented cheques listing revealed that the figure of Kshs.11,059,258 includes stale cheques totaling Kshs.6,270,513, some dating back to May, 2015, which were drawn but not presented to the bank for payment. Management has provided evidence showing that the stale cheques were cancelled and reversed in the cashbook during the month of December, 2020. This is therefore a confirmation that the cash and cash equivalents balance reported as at 30 June, 2020 is erroneous.

In addition, it was noted that although monthly bank reconciliation statements were properly prepared, they were not approved by the Accounting Officer (Fund Account Manager) and, therefore, were not submitted to the National Treasury with copies to the Auditor-General, contrary to the requirement of Section 90(1) of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the accuracy of the reported cash and cash equivalents figure of Kshs.156,805 as at 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 Constituency Development Fund - Sirisia 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**

### **1.0 Undisbursed Funds by the NG-CDF Board.**

Included in the transfers from the Board under the statement of receipts and payments is Kshs.137,340,875 received during the year under review, compared to the approved budget allocation figure of Kshs.137,367,724, resulting in a deficit of Kshs.26,849. Further, excluded from the Kshs.137,340,875 is an amount of Kshs.111,064,322 being accumulated undisbursed funds from the Board. Management has indicated, without providing the relevant Authorities to Incur Expenditure (AIEs), bank statements and receipt vouchers, that the outstanding amount of Kshs.111,064,322 was disbursed and utilized during the financial year ending 30 June, 2021.

The low disbursement of funds by the Board may affect ability of the Fund to provide services to the residents of Sirisia Constituency.

### **2.0 Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.210,103,709 and Kshs.140,735,985 respectively resulting to an under funding of Kshs.69,367,724 or 33% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.140,579,181 against an approved budget of Kshs.210,103,709 resulting to an under-expenditure of Kshs.69,524,528 or 33% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the Citizens.

### **3.0 Project Implementation Performance**

The Fund's Project Implementation Status (PIS) Report as at 30 June, 2020 shows that a total of forty-five (45) projects were to be implemented with estimated cost of Kshs.126,829,537 under security, education, sports and environment sectors during the financial year under review. Out of the 45 projects, 18 projects valued at Kshs.63,199,280 were completed, 23 projects valued at Kshs.57,430,257 were ongoing and 4 projects valued at Kshs.6,200,000 had not started as at 30 June, 2020.

Further, fifty-seven (57) projects estimated to cost a total of Kshs.27,748,349, which commenced during the financial years 2013/2014 to 2018/2019 and which were to be completed between June, 2014 and June, 2019 were still ongoing as at June, 2020.

Consequently, the Fund may not have achieved its projects completion targets and could therefore not provide its constituents with all the services planned and budgeted for, over the six consecutive years ending 30 June, 2020. Further, management may not be prioritizing on-going projects when allocating funds as required by Section 46(2) of the National Government Constituencies Development Fund Act, 2015.

## **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 Transfers to Other Government Units**

#### **1.1 Construction of a Twin Laboratory at St Augustine Stabicha Secondary School**

A local company was awarded a contract for the construction of a twin laboratory at St. Augustine Stabicha Secondary School at a contract sum of Kshs.4,475,704. The contractor was paid Kshs.2,300,000 on 4 February, 2020, for the completion of the works. However, a site visit in the month of March, 2021 revealed the following anomalies:

- a) The project had since stalled despite the fact that the contract period had elapsed, and the contractor was not on site. Management has explained that this was due to delays in disbursing funds for the Project.
- b) The walling had been done by bricks while the bill of quantities provided for natural stones.

#### **1.2 Construction of a Twin Laboratory at St. Emaculate Mayekwa Secondary School**

During the year under review, St.Emaculate Mayekwa Secondary school was given Kshs.2,300,000 by the Fund for the completion of a twin laboratory. However, audit inspection conducted in the month of March, 2021 revealed the following unsatisfactory matters:

- a) The contractor was not on site and the project had stalled due to delays in disbursement of funds for the project by the National Government Constituencies Development Fund Board.
- b) The finishes, including electrical works and flooring were not done and the windows were not fully fitted.
- c) The winning bidder's documents were not provided for confirmation of how works had been done as compared to the bill of quantities.

#### **1.3 Construction of Four Classrooms at Marakaru Primary School**

During the year under review, the Fund disbursed Kshs.400,000 to Marakaru primary school for the construction of four (4) classrooms. However, a physical verification conducted on the project in the month of March, 2021 revealed the following:

- a) The land on which the school was built did not have a title deed and Management explanation was that the process of acquiring the title deed was on-going. However, no documentary evidence was provided.
- b) The land was not fenced, and it was therefore not possible to determine the boundary.
- c) Although the bill of quantities specified use of natural stones for the wall structures, the contractor used natural stones up to the middle and finished with bricks including the partitioning. This was however not captured by the monitoring and evaluation committee during their routine monitoring trips as evidenced by the numerous payments made to them in respect of the project.
- d) The project was incomplete and the contractor was not on site, but the classroom was in use.

#### **1.4 Construction of Classrooms and Administration Block at Sirisia Township Primary School**

During the year under review, the Fund paid Kshs.19,076,870 to a contractor for the construction and completion of eight (8) classrooms and an administration block at Sirisia township primary school. However, a site visit in the month of March, 2021 revealed that the contractor was not on site and the project had stalled. Further, the building works had a variation from the originally raised and approved bill of quantities as toilets had been incorporated, but without approval.

In the circumstances, value for money for the expenditure of Kshs.24,076,870 for the year ended 30 June, 2020 could not be confirmed.

### **2.0 Other Grants and Transfers**

#### **2.1 Construction of Sitabicha Chief's Office**

During the year under review, the Fund made a payment of Kshs.3,000,000 to Sitabicha Chief's Office for the construction of the Chief's office. However, a site visit done in the month of March, 2021 revealed that although the office was complete, the land on which it was built had no title deed. Management has indicated, without evidence, that the PMC is in the process of acquiring a title deed for the land.

#### **2.2 Construction of Bukokholo Chief's Office**

During the year under review, the Fund made a payment of Kshs.823,349 to Bukokholo Chief's office for the construction of the Chief's office. However, a physical verification of the project carried out in the month of March, 2021 revealed that the office had stalled at the roof level. Further the land on which the office was built had no title deed. Management has indicated, without evidence, that the PMC is in the process of acquiring the title deed for the land.

In view of the foregoing, value for money may not have been realized in the expenditure of Kshs.3,823,349, and the ownership of the land on which the two offices were built 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 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 applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management 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 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 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.



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

**Nairobi**

**11 February, 2022**



