

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – NAIVASHA 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 (NGCDF) – Naivasha Constituency set out on pages 8 to 35, 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, 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 – Naivasha 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. Errors in the Annual Reports and the Financial Statements**

The annual report and the financial statements prepared and presented for audit had the following errors: -

- 1.1** The financial statement has “revised template 30 June, 2019” reflected on the cover page.
- 1.2** The statement of Management responsibilities at page 7 reflects the word “Entity” instead of NGCDF – Naivasha Constituency; and
- 1.3** The statement of cash flows omits cash and cash equivalent at the end of the year balance.

This is contrary to the format prescribed by the Public Sector Accounting Standards Board (PSASB) in accordance with section 194 (1) (d) of the Public Finance Management Act, 2012.

Consequently, the annual report and the financial statements for the year ended 30 June, 2019 as prepared and presented are not in compliance with International Public Sector Accounting Standards (Cash Basis) template.

## **2. Inaccuracies in the Financial Statements**

The financial statements prepared and presented for audit had the following inconsistencies:-

- 2.1** The statement of receipts and payments reflects Nil expenditure on acquisition of assets while the summary of fixed asset register in annex 4 reflects additions of Kshs.2,000,000 during the year;
- 2.2** The summary statement of appropriation - recurrent and development combined reflects budget adjustment of Kshs.75,944,352 which is not supported by approved code list from the NGCDF Board;
- 2.3** The summary statement of appropriation-recurrent and developments combined reflects final budget amount of Kshs.184,985,228 that differs with the approved code list amount of Kshs.128,158,117 resulting to an unexplained variance of Kshs.56,827,111.
- 2.4** Note 15.4 to the financial statements reflects project management bank account opening balances of Kshs.31,654,840 which differs from the detailed listing at Annex 5 amounting to Kshs.25,636,364 resulting to unreconciled variance of Kshs.5,998,476.

Consequently, the accuracy and completeness of the financial statements as prepared and presented could not be confirmed.

## **3. Unsupported Bursary Payments**

The statement of receipts and payments reflects other grants and transfers of Kshs.61,600,400; (2018 - Kshs.36,653,606) and as disclosed in Note 7 to the financial statements. Included in the transfers are bursaries to secondary and tertiary institutions of Kshs.37,299,860 out of which bursary payments amounting to Kshs.18,648,020 were not supported by schedules.

Consequently, the accuracy and validity of bursary payments included in other grants and transfers amounting to Kshs.61,600,400 could not be confirmed.

## **4. Anomalies in the Bank Reconciliation Statements**

The statement of assets and liabilities reflects bank balances of Kshs.5,331,571;(2018-Kshs.10,459,869) and as disclosed in Note 10A to the financial statements. However, the bank reconciliation statement in support reflects payments in cash book but not in bank amounting to Kshs.3,068,726 out of which, cheques totalling Kshs.1,371,000 were stale, but had not been written back into the cash book. Further, receipts and payments of Kshs.5,001 and Kshs.74,256 respectively in the bank statement had not been recorded in the cash book.

Consequently, the accuracy and completeness of the cash balances of Kshs.5,331,571 as at 30 June, 2019 could not be confirmed.

## **5. Unsupported Compensation of Employees**

The statement of receipts and payments reflects compensation of employees' of Kshs.2,223,131;(2018 - Kshs.2,407,853) and as disclosed under Note 4 to the financial statements. However, the expenditure was not supported by a schedule of employees' remuneration for each month in the year. This is in breach of Section 120(3) of the Public Finance Management (National Government) Regulations 2015 that requires the accounting officer to certify the correctness of the payroll at least once in every month.

Consequently, the accuracy and validity of compensation of employees' expenditure of Kshs.2,223,131 for the year ended 30 June, 2019 could not be confirmed.

## **6. Unsupported Committee Expenditure**

The statement of receipts and payments reflects use of goods and services of Kshs.9,615,864; (2018 - Kshs.6,923,955) and as disclosed in Note 5 to the financial statements. However, committee expense of Kshs.2,932,400 was not adequately supported by a schedule of meetings, list of attendees and allowances paid to individual member.

Consequently, the accuracy and validity of use of goods and services of Kshs.9,615,864 for the year ended 30 June, 2019 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 - Naivasha 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**

### **Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.184,985,228 and Kshs.108,784,483 respectively resulting to an under-funding of Kshs.76,200,745 or 41% of the budget. Similarly, the Fund spent Kshs.113,912,781 against an approved budget of Kshs.184,985,228 resulting to an under-expenditure of Kshs.71,072,447 or 38% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Naivasha 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. Status of Projects Implementation

Review of the project implementation status report as of 30 June, 2019 indicates that one hundred and three (103) projects with funding allocation of Kshs.134,112,413. Forty-six (46) were completed, twelve (12) projects were ongoing, twenty-nine (29) had not started and sixteen (16) were ongoing prior year projects.

#### 1.1. Incomplete Projects

Fifty-seven (57) projects with funding allocation of Kshs.82,025,863 were incomplete due to slow tendering processes and delays in receipt of funds from the Board.

Consequently, it was not possible to confirm if and when value for money will be realized from the incomplete projects.

#### 1.2. Unsatisfactorily Implemented Projects

Eighteen (18) projects with Funding allocation of Kshs.41,752,550 were sampled for verification during the month of February, 2020. Fourteen (14) projects with funding allocation of Kshs.36,252,550 were not satisfactorily implemented. Below are the individual observations made against the projects: -

Project Beneficiary and Details	Cost (Kshs.)	Observations
Maryland Police Post – Completion of a police post;(roofing, plastering, windows and doors, painting and branding (Kshs.700,000) construction of three (3) holding cells and armory (Kshs.800,000)	1,500,000	Roofing, windows, doors, cells and armory done. Painting and branding was not done.
Mountain View AP Post – Construction of three (3) holding cells and armory (Kshs.800,000); construction of ablution (Kshs.800,000); Purchase and installation of 10,000 litres water tank and guttering (Kshs.200,000), and construction of two (2) door toilets (Kshs.200,000)	2,000,000	Cells, armory, ablution and toilets done. Water tank and guttering worth Kshs.200,000 was not done.
Sision AP Post - Construction of four (4) offices to completion (Kshs.1,000,000)	1,000,000	Not started, land ownership documents being awaited.

<b>Project Beneficiary and Details</b>	<b>Cost (Kshs.)</b>	<b>Observations</b>
Lake Naivasha Girls Secondary School – Construction of a one storey with two (2) classrooms to completion	2,000,000	Not started, procurement of contractor services in process.
Milimani Secondary School – Construction of five (5) offices to completion (Kshs.4,000,000)	4,000,000	Not started, procurement of contractor services in process.
Gathima Primary School - Completion of four (4) classrooms and branding	4,614,550	No title deed
Naivasha Deb Primary – Construction of one special unit class with shelves, toilet and cupboards (Kshs.1,600,000)	1,338,000	Project not branded
St. Paul Primary School – Construction of class rooms (Kshs.4,000,000)	2,400,000	Incomplete
Nyonjoro Primary School – Construction of class rooms	2,500,000	Incomplete
Ndabibi Primary School – Construction of class rooms	2,400,000	Incomplete
Nyakairu Senior, Maella Central Mixed and Rubiri Secondary – Construction of class rooms	7,900,000	Funds reallocated to other projects without the requisite approval.
Mariella Police Station	2,000,000	Funds reallocated to other projects without the requisite approval.
Mountain View Police Station	600,000	No title deed
Chiefs Office Kirima Location	2,000,000	No title deed
<b>Total</b>	<b>36,252,550</b>	

No satisfactory explanations have been rendered for the deficiencies in projects implementation.

Consequently, it was not possible to confirm if and when the constituents of Naivasha will realize value for money from the projects valued at Kshs.36,252,550 for the year ended 30 June, 2019.

## **2. Project Management Bank Accounts**

Note 15.4 PMC account balances reflects project bank account balances of Kshs.30,184,489; (2018-Kshs.31,654,840). As previously reported, the balance includes Maryland Police Post and Maraigushu Secondary School projects bank account balances of Kshs.993,950 and Kshs.616,986 respectively that are dormant and deactivated. Management has not provided explanations as to why the balances have not been refunded into the main Fund account.

Further, thirty-seven (37) projects which were on going, were not supported by project implementation status report contrary to Section 8(2)(g) of the National Government Development Fund Regulations, 2015, that requires the chairperson of a constituency committee to coordinate the compilation of project status reports every six months.

Consequently, the Management is 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 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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Non-Maintenance of a Fixed Asset Register**

Annex 4 of summary of fixed assets register reflects historical cost balance of fixed assets of Kshs.11,381,391. However, the Management has not provided a detailed fixed asset register in support of the balance contrary to provisions of Section 139(1)(b) of the Public Finance Management National Government Regulations, 2015 that requires an Accounting Officer to ensure that proper control systems exist for assets and that of their movement and conditions in order to be tracked.

Consequently, it was not possible to confirm whether mechanisms for effective management of the fixed assets to safeguard them against pilferage are in place.

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 the 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 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 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.



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

**Nairobi**

**09 February, 2022**